THE COMPLETE GUIDE FOR INDIAN INVESTORS

A PRACTICAL GUIDE TO INVESTING IN UNLISTED SHARES

HOW TO FIND, ANALYSE, BUY AND SELL UNLISTED SHARES IN INDIA

A STEP-BY-STEP HANDBOOK FOR SMART, INFORMED AND DISCIPLINED INVESTING

FIND THE RIGHT COMPANY

DO THOROUGH DUE DILIGENCE

UNDERSTAND PRICING & VALUATION

BUY SAFELY THROUGH RIGHT CHANNELS

MANAGE RISK AND BUILD LONG TERM WEALTH

EXIT AT THE RIGHT TIME

A COMPREHENSIVE ROADMAP TO INDIA'S UNLISTED SHARE MARKET

Mithlesh Kant - "MiTH"

PRACTICAL | RESEARCH BASED | INVESTOR FOCUSED

Investing in

UNLISTED SHARES

in INDIA

A Practical Handbook on

Pre-IPO Investing • Company Valuation • Due Diligence • Risk Management • Taxation • Portfolio Construction • Wealth Creation

First Edition: 2026

Author: I am – "***MiTH***"

DEDICATION

To every investor who believes that informed decisions create lasting wealth.

This book is dedicated to lifelong learners who choose knowledge over speculation, patience over excitement, and disciplined investing over shortcuts.

May your investment journey always be guided by wisdom, integrity, and continuous learning.

ACKNOWLEDGEMENTS

Writing a comprehensive handbook on investing in unlisted shares requires drawing upon the collective knowledge developed over decades by regulators, economists, financial analysts, investment professionals, corporate leaders, accountants, lawyers, researchers, and educators.

I would like to acknowledge the invaluable contributions made by numerous public institutions, financial market participants, academic researchers, and industry professionals whose work has helped shape the understanding of private equity markets and corporate finance.

Particular appreciation is due to the regulatory institutions responsible for maintaining transparency and integrity in India's financial markets. Their publications, circulars, consultation papers, educational initiatives, and regulatory frameworks provide an important foundation for informed investing.

I also acknowledge the efforts of company management teams who publish annual reports, financial statements, investor presentations, and corporate disclosures that enable investors to evaluate businesses more effectively.

Finally, I express sincere gratitude to every investor whose curiosity, questions, experiences, and desire to learn inspired the preparation of this handbook. It is my hope that this book contributes meaningfully to improving financial literacy and encourages thoughtful, disciplined, and responsible investing.

HOW TO USE THIS BOOK

This handbook has been designed as both a learning resource and a long-term reference manual.

Unlike books that are intended to be read only once, this handbook is structured so that readers can repeatedly refer to individual chapters, tables, checklists, and appendices whenever they evaluate a new investment opportunity.

The chapters have been arranged in a logical sequence.

Part I – Understanding the Basics – Unlisted Shares

Part II – Investing Process – Buying unlisted shares

Part III – Financial Analysis and Due Diligence

Part IV – Becoming a Better Investor

Part V – Finding and Evaluating Investment Opportunities

How to Read This Book

If you are completely new to investing, read the chapters sequentially.

If you already understand the basics, you may directly refer to individual chapters as required.

Before making any investment, it is recommended that you complete the Due Diligence Checklist provided in the appendices.

Readers are encouraged to make notes, highlight important sections, and periodically revisit the investment checklists included throughout the book.

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About the Author

ABBREVIATIONS

Abbreviation	Meaning
AOA	Articles of Association
AGM	Annual General Meeting
AIF	Alternative Investment Fund
BSE	Bombay Stock Exchange
CAGR	Compound Annual Growth Rate
CA	Chartered Accountant
CDSL	Central Depository Services (India) Limited
CIN	Corporate Identification Number
CRO	Chief Risk Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
CSR	Corporate Social Responsibility
DIN	Director Identification Number
DP	Depository Participant
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EPS	Earnings Per Share
FEMA	Foreign Exchange Management Act
FY	Financial Year
IPO	Initial Public Offering
IRR	Internal Rate of Return
MCA	Ministry of Corporate Affairs

Abbreviation	Meaning
MOA	Memorandum of Association
NAV	Net Asset Value
NSE	National Stock Exchange
NSDL	National Securities Depository Limited
PAT	Profit After Tax
PE	Price to Earnings Ratio
PB	Price to Book Ratio
ROCE	Return on Capital Employed
ROE	Return on Equity
RBI	Reserve Bank of India
SEBI	Securities and Exchange Board of India
TDS	Tax Deducted at Source

ABOUT THIS BOOK

Purpose

The purpose of this handbook is to help retail investors understand unlisted shares through a practical, structured, and evidence-based approach.

This book does **not** recommend specific companies or guarantee investment returns. Instead, it equips readers with the knowledge and tools needed to evaluate opportunities independently and make informed investment decisions.

Intended Audience

This handbook is suitable for:

- First-time investors exploring unlisted shares.
- Retail investors seeking to diversify beyond listed equities.
- Professionals interested in understanding pre-IPO investing.
- Students of finance and business.
- Chartered Accountants, Company Secretaries, and finance professionals looking for a practical overview.
- Entrepreneurs and business owners interested in private equity markets.

Editorial Standards

To ensure consistency throughout the book:

- Indian English spelling and usage are followed.
- Financial terminology is explained in simple language wherever possible.
- All examples are illustrative unless otherwise stated.
- Currency values are presented in Indian Rupees (₹).
- References to laws, regulations, and taxation are based on the framework applicable at the time of writing and should be verified for future changes.

PART I

Understanding the Basics – Unlisted Shares

CHAPTER 1

Introduction to Unlisted Shares

Understanding an Important but Often Overlooked Investment Opportunity

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"Every listed company was once an unlisted company. Understanding the private stage of a business helps investors appreciate how companies create value long before they appear on a stock exchange."

Learning Objectives

After completing this chapter, you should be able to:

- Define unlisted shares and understand how they differ from listed shares.
- Explain why companies choose to remain unlisted.
- Understand where unlisted shares fit within India's capital markets.
- Identify the different categories of unlisted companies.
- Recognize the potential benefits and limitations of investing in unlisted shares.
- Understand the role of private ownership in business growth.

Key Terms

Before reading this chapter, become familiar with the following terms:

Term	Meaning
Equity Share	Ownership interest in a company
Shareholder	Person or entity owning shares in a company
Listed Company	A company whose shares are traded on a recognised stock exchange
Unlisted Company	A company whose shares are not traded on a recognised stock exchange
IPO	Initial Public Offering through which a company becomes publicly listed
Private Company	A company with restrictions on the transfer of shares under applicable law and its constitutional documents
Public Company	A company incorporated as a public company; it may be listed or unlisted

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1.1 Introduction

When most people think about investing in shares, they immediately think of companies whose shares are traded every day on stock exchanges such as the **National Stock Exchange (NSE)** and the **Bombay Stock Exchange (BSE)**.

These companies include many well-known businesses that investors can buy or sell with a few clicks through their trading accounts.

However, the stock market represents only one part of the corporate world.

Thousands of companies operate successfully without being listed on a stock exchange. Many of these businesses generate substantial revenues, employ thousands of people, develop innovative products, and contribute significantly to the economy.

The ownership of these businesses is represented by **unlisted shares**.

Understanding this segment of the market opens the door to investment opportunities that are often less visible than listed companies but may offer different characteristics, risks, and potential rewards.

1.2 What Are Unlisted Shares?

An **unlisted share** represents ownership in a company whose shares are **not traded on a recognised stock exchange**.

Like listed shares, unlisted shares represent equity ownership. Shareholders may benefit if the business grows in value and may also receive dividends if the company declares them.

The principal difference is **where and how these shares are bought and sold**.

Listed shares are traded through organised exchanges with continuous price discovery.

Unlisted shares are generally transferred through private transactions between willing buyers and sellers, subject to applicable laws and company-specific restrictions.

Simple Definition

Unlisted shares are ownership interests in companies whose shares are not available for trading on recognised stock exchanges.

1.3 Understanding Ownership

Imagine a company valued at ₹100 crore.

If it has issued **10 lakh equity shares**, each share represents ownership in a fraction of the business.

When you purchase one share, you become a part owner of that company.

The size of your ownership depends on the number of shares you hold relative to the company's total issued shares.

This principle applies whether the company is listed or unlisted.

Example

Suppose **ABC Technologies Private Limited** has:

Particular	Value
Company Value	₹100 Crore
Total Shares Issued	10,00,000
Shares Purchased	1,000

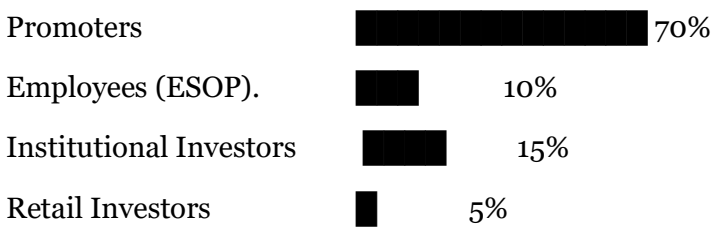
Ownership Percentage:

1,000 ÷ 10,00,000 = **0.10% ownership**

Although the ownership percentage is small, the shareholder participates in the economic value of the business subject to applicable rights attached to the shares.

Figure 1.1 – Ownership Structure (Illustrative)

ABC Technologies Pvt. Ltd.



1.4 Where Do Unlisted Shares Fit in India's Capital Markets?

India's capital markets can broadly be divided into two segments.

Capital Market	Description
Public Market	Companies listed on recognised stock exchanges
Private Market	Companies whose shares are privately held and not listed

Both markets play important roles in financing businesses.

Private markets often support companies during their early and growth stages, while public markets provide broader access to capital once businesses mature.

Figure 1.2 – Company Growth Journey

Idea

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Start-up

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Seed Funding

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Angel Investors

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Venture Capital

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Private Equity

↓

Established Unlisted Company

↓

IPO

↓

Listed Company

Important: Not every company follows this exact path, and many successful businesses choose to remain unlisted for extended periods.

1.5 Why Do Companies Remain Unlisted?

Many new investors assume that every successful company wants to become listed.

This is not correct.

Companies may remain unlisted for a variety of legitimate business reasons.

Common Reasons

1. Long-Term Control

Promoters may prefer to retain greater control over strategic decisions without the reporting obligations associated with a public listing.

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2. Reduced Compliance Burden

Listed companies are subject to extensive disclosure, governance, and regulatory requirements.

Remaining unlisted may reduce these obligations, although private companies must still comply with applicable corporate laws.

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3. No Immediate Requirement for Public Capital

Some businesses generate sufficient profits or have access to private funding and therefore do not require capital from public markets.

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4. Strategic Flexibility

Private ownership may allow management to focus on long-term business development without the pressure of quarterly market expectations.

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5. Preparing for Future Listing

Some companies remain unlisted while strengthening operations before considering an IPO.

Expert Insight

A company being unlisted should not be interpreted as either positive or negative.

The investment decision should always be based on the quality of the business, its financial strength, governance standards, valuation, and future prospects—not merely on whether it is listed or unlisted.

1.6 Categories of Unlisted Companies

Unlisted companies are diverse. They range from early-stage start-ups to large, well-established enterprises.

Category	Typical Characteristics
Start-ups	Early-stage businesses with high growth potential and high risk
Growth Companies	Expanding businesses seeking additional capital
Mature Private Companies	Established companies choosing to remain privately held
Pre-IPO Companies	Companies considering a future public listing
Wholly Owned Subsidiaries	Companies owned by another corporate group and not separately listed

Each category has a distinct risk-return profile and should be evaluated accordingly.

1.7 Listed Shares vs. Unlisted Shares – A Detailed Comparison

One of the easiest ways to understand unlisted shares is to compare them with listed shares. While both represent ownership in a company, they differ significantly in terms of trading, regulation, valuation, liquidity, and investor experience.

Table 1.1: Comparison Between Listed and Unlisted Shares

Particular	Listed Shares	Unlisted Shares
Trading Platform	Traded on recognised stock exchanges	Traded through private transactions
Price Discovery	Continuous market-based pricing	Negotiated between buyer and seller
Liquidity	Generally high	Usually limited
Transparency	Extensive public disclosures	Limited public information
Regulatory Oversight	Extensive market regulations	Corporate law and applicable regulations
Settlement	Standard exchange settlement	Private settlement process
Daily Price Availability	Yes	No
Research Availability	Widely available	Often limited
Investor Participation	Anyone with a trading account	Subject to availability of sellers and applicable restrictions
Volatility	Market-driven	Less frequent price discovery but valuation may change significantly

Expert Insight

Many investors assume that lower liquidity automatically means a poor investment.

This is incorrect.

Liquidity and investment quality are two different concepts.

A company may have an outstanding business model yet still have limited liquidity because its shares are privately held. Conversely, a listed company may offer excellent liquidity while facing significant business challenges.

A successful investor evaluates **both business quality and liquidity**, rather than focusing on either factor alone.

1.8 Common Misconceptions About Unlisted Shares

As interest in pre-IPO investing has grown, several misconceptions have become widespread. Understanding these myths can help investors make more balanced decisions.

Myth 1: Every Unlisted Company Will Eventually Launch an IPO

Reality:
Many successful companies choose to remain privately owned for years, and some never seek a public listing. An IPO is a strategic business decision—not an inevitable outcome.

Myth 2: Every Pre-IPO Investment Generates Huge Returns

Reality:
While some investments have delivered substantial returns, many others have generated modest returns or losses. Past success stories should not be treated as guarantees of future performance.

Myth 3: Unlisted Shares Are Only for Wealthy Investors

Reality:
Although some opportunities require significant capital, many unlisted investments are accessible to retail investors, depending on the transaction size and availability of shares.

Myth 4: A Popular Company Is Always a Good Investment

Reality:
Brand recognition does not automatically translate into an attractive investment. Valuation, profitability, governance, and future prospects remain equally important.

Myth 5: Limited Availability Means the Investment Is Attractive

Reality:
Statements such as "only a few shares left" or "last opportunity before IPO" are often marketing tactics. Investors should rely on evidence rather than urgency.

1.9 Advantages of Investing in Unlisted Shares

Although unlisted shares involve additional risks, they also offer unique characteristics that may appeal to long-term investors.

Potential Advantages

1. Opportunity to Invest Before Public Listing

Investors may gain exposure to companies before they become widely available through public markets.

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2. Long-Term Wealth Creation Potential

If a business grows successfully over several years, shareholders may benefit from that growth. However, outcomes vary widely and depend on business performance and valuation.

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3. Portfolio Diversification

Unlisted shares provide exposure to businesses that are not available on stock exchanges, potentially broadening the range of investment opportunities.

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4. Access to Emerging Businesses

Investors may identify businesses operating in new or rapidly developing sectors before they become widely recognised.

5. Reduced Short-Term Market Noise

Since unlisted shares are not traded continuously, investors are less exposed to daily market price fluctuations. This does not reduce business risk, but it may encourage a longer-term perspective.

1.10 Limitations of Investing in Unlisted Shares

Every investment opportunity involves trade-offs. Investors should understand these limitations before investing.

Limited Liquidity

Finding a buyer may take time, and there may be periods when no suitable buyer is available.

Limited Public Information

Compared with listed companies, information may be less comprehensive or less frequently available.

Valuation Challenges

Without continuous market pricing, determining a fair value requires greater analysis and judgement.

Higher Due Diligence Requirement

Investors often need to spend more time understanding the business, management, financial statements, and governance practices.

Longer Investment Horizon

Many unlisted investments are more suitable for investors who can remain invested for several years rather than seeking short-term gains.

Table 1.2: Advantages and Limitations

Advantages	Limitations
Exposure to private businesses	Lower liquidity
Potential long-term growth	Limited public information
Portfolio diversification	More complex valuation
Access before possible IPO	Greater research effort
Encourages long-term investing	Longer holding periods may be required

---

1.11 Who Should Consider Investing in Unlisted Shares?

Unlisted shares are not appropriate for every investor.

They may be more suitable for individuals who:

- Have a long-term investment horizon.
- Understand equity investing.
- Can tolerate periods of illiquidity.
- Maintain an emergency fund.
- Have diversified investments across multiple asset classes.
- Are willing to conduct detailed research.

Conversely, investors seeking guaranteed returns, immediate liquidity, or short-term trading opportunities may find listed investments more suitable.

Practical Illustration

Investor A

- Emergency fund available.
- Diversified portfolio.
- Long-term investment horizon.
- Invests only surplus funds.

- Reviews company financials before investing.

This investor is generally better prepared to consider unlisted investments.

Investor B

- Borrows money to invest.
- Expects quick profits.
- Invests based on social media messages.
- Has no emergency savings.
- Does not understand the business.

This investor is taking significantly higher risk and should reconsider the investment approach.

Warning Box

Never invest in an unlisted company solely because someone claims it will "definitely" become the next major IPO.

Investment decisions should always be based on the underlying quality of the business, not on speculation about future listing plans.

1.12 The Investor's Mindset

Successful investing in unlisted shares requires thinking like a business owner rather than a trader.

Ask yourself:

- Would I be comfortable owning this business if there were no IPO?
- Do I understand how the company earns money?
- Can I remain invested for several years if required?
- Have I evaluated the risks objectively?

If the answer to these questions is "yes," you are approaching the investment with the right mindset.

Chapter Summary

Unlisted shares represent ownership in companies whose shares are not traded on recognised stock exchanges. Although they differ from listed shares in terms of liquidity, pricing, and information availability, they remain an important part of India's capital markets. Investing in unlisted shares requires greater due diligence, patience, and a long-term perspective. Rather than focusing on rumours or anticipated IPOs, investors should evaluate business quality, management, financial performance, valuation, and governance before making investment decisions.

Key Takeaways

- Unlisted shares represent ownership in privately traded companies.
- Not all unlisted companies plan to launch an IPO.
- Business quality is more important than listing status.
- Lower liquidity requires a longer investment horizon.
- Thorough research and disciplined decision-making are essential.

Self-Assessment Questions

1. What is the primary difference between listed and unlisted shares?
2. Why do some successful companies remain unlisted?
3. What are the main advantages and limitations of investing in unlisted shares?
4. Why is liquidity an important consideration for investors?
5. How can investors avoid common misconceptions about pre-IPO investing?

Practical Exercise

Choose one well-known private company in India and prepare a one-page profile covering:

- Nature of business
- Industry
- Products or services
- Revenue model

- Key competitors
- Reasons why the company may choose to remain unlisted
- Potential opportunities and risks

This exercise will help you begin analysing businesses from an investor's perspective.

Investor Checklist

Before moving to Chapter 2, ensure that you can confidently answer the following questions:

- I understand what an unlisted share is.
- I can explain the difference between listed and unlisted shares.
- I understand why companies remain unlisted.
- I recognise the benefits and limitations of investing in unlisted shares.
- I understand that an IPO is not guaranteed.
- I appreciate the importance of business quality over market rumours.

CHAPTER 2

Understanding the Unlisted Share Market in India

Market Structure, Participants, Regulations and How Transactions Take Place

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"Before investing in any market, investors should first understand how that market functions. A clear understanding of the ecosystem helps reduce mistakes and improves investment decisions."

Learning Objectives

After completing this chapter, you should be able to:

- Understand the structure of the unlisted share market in India.
- Identify the key participants involved in transactions.
- Learn how companies progress from incorporation to a possible IPO.
- Understand how buyers and sellers connect.
- Recognize the role of brokers, intermediaries, depositories, and regulators.
- Appreciate how the unlisted market differs from an organised stock exchange.

Key Terms

Term	Meaning
Primary Market	Market where securities are issued for the first time
Secondary Market	Market where existing securities are bought and sold
Private Placement	Issue of securities to a select group of investors
ESOP	Employee Stock Ownership Plan
Depository	Institution that holds securities in electronic form
Depository Participant (DP)	Intermediary through which investors access depository services
Share Transfer	Transfer of ownership from one shareholder to another

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2.1 Introduction

India's financial markets are often associated with the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). Every trading day, millions of investors buy and sell listed securities through these exchanges.

However, this visible market represents only one segment of the broader capital market.

Behind the listed market exists a much larger ecosystem of privately held companies, start-ups, venture-funded businesses, family-owned enterprises, subsidiaries of listed corporations, and pre-IPO companies. Shares of these companies may change hands through negotiated transactions without being traded on a recognised stock exchange.

This ecosystem is commonly referred to as the unlisted share market.

Unlike the organised exchange environment, transactions in this market require greater due diligence, careful documentation, and negotiation between buyers and sellers.

2.2 The Indian Capital Market Ecosystem

To understand where unlisted shares fit, it is useful to view the capital market as a complete ecosystem.

Figure 2.1 – Structure of India's Capital Market

Indian Capital Market

Public Market	**Private Market**
(Listed Companies).	(Unlisted Companies)
NSE / BSE Trading	Private Transactions
Exchange Settlement	Broker / Platform / Direct Sal

The public market offers continuous trading and transparent pricing, whereas the private market operates through negotiated transactions.

2.3 Evolution of a Company

Every listed company begins its journey as a privately owned business.

Although every company's path is unique, many businesses follow a broadly similar progression.

Figure 2.2 – Typical Corporate Life Cycle

Business Idea

|

Incorporation

|

Founder Capital

|

Friends & Family Funding

|

Angel Investors

|

Venture Capital

|

Private Equity

|

Established Private Company

|

Possible IPO

|

Listed Company

It is important to note that **an IPO is only one possible outcome**. Many successful companies remain privately owned for decades.

2.4 Who Participates in the Unlisted Share Market?

The market involves several different participants, each performing a distinct role**.**

Table 2.1 – Key Market Participants

Participant	Primary Role
Promoters	Founders or controlling shareholders of the company
Employees	May receive shares through ESOPs
Early Investors	Angel investors, venture capital funds, private equity funds
Existing Shareholders	Individuals or institutions selling their holdings
Retail Investors	Individuals investing their personal capital
Brokers and Intermediaries	Facilitate transactions between buyers and sellers
Depositories	Hold securities electronically
Regulators	Oversee compliance with applicable laws

Understanding each participant's motivation helps investors interpret market activity more effectively.

2.5 Why Do Existing Shareholders Sell?

Many first-time investors assume that if someone is selling, the company must be facing problems.

This assumption is often incorrect.

Shareholders may sell for several legitimate reasons:

- Portfolio rebalancing.
- Diversification.
- Personal financial needs.
- Retirement planning.
- Employee liquidity after ESOP vesting.
- Fund life cycle completion (venture capital or private equity).

- Estate planning.
- Partial profit booking.

The existence of a seller does not necessarily indicate weakness in the underlying business.

2.6 Who Buys Unlisted Shares?

Similarly, different categories of buyers participate for different reasons.

Common Buyers

- Long-term retail investors.
- High Net Worth Individuals (HNIs).
- Family offices.
- Institutional investors.
- Venture capital funds.
- Private equity funds.
- Strategic corporate investors.

Each category may have different investment objectives and holding periods.

2.7 How Are Buyers and Sellers Connected?

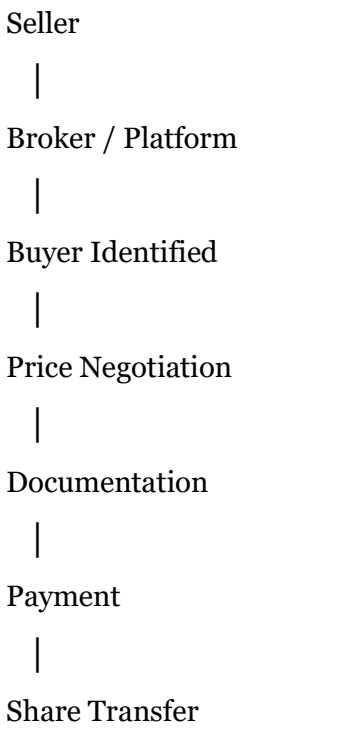
Unlike stock exchanges, there is no central electronic marketplace where all buy and sell orders are displayed.

Instead, transactions generally occur through:

- Specialised brokers.
- Investment platforms.
- Wealth management firms.
- Existing shareholder networks.
- Direct negotiations.

These intermediaries help identify counterparties, facilitate documentation, and coordinate settlement.

Figure 2.3 – Simplified Transaction Flow



2.8 Why Is There No Official Market Price?

One of the defining characteristics of the unlisted market is the absence of continuous price discovery.

Unlike listed companies, where thousands of trades determine the prevailing market price every trading day, unlisted transactions occur only when a buyer and seller agree on a price.

As a result, the quoted price for the same company may vary depending on:

- Recent transactions.
- Availability of sellers.
- Buyer demand.
- Company performance.
- Market sentiment.
- Negotiation between parties.

For this reason, obtaining quotations from multiple intermediaries is considered good practice.

Expert Insight

rice and value are not the same.

The negotiated transaction price represents what two parties agree upon at a particular point in time. The intrinsic value of a business depends on its financial performance, future prospects, competitive position, and other fundamental factors.

2.9 Sources of Supply

Where do unlisted shares come from?

Typical sources include:

Employee Stock Ownership Plans (ESOPs)

Employees who have received vested shares may choose to sell them, subject to applicable company policies and legal restrictions.

Existing Shareholders

Early investors may partially reduce their holdings.

Promoter Sales

In some cases, promoters may sell a portion of their shareholding, although such transactions should be evaluated carefully to understand the context.

Institutional Investors

Private equity or venture capital funds may exit investments after achieving their investment objectives.

2.10 Types of Companies Commonly Seen in the Market

Investors may encounter different categories of businesses.

Category	Characteristics
Start-ups	Early-stage, high growth potential, higher uncertainty
Venture-backed Companies	Supported by institutional investors
Mature Private Companies	Established operations and stable revenues
Pre-IPO Companies	Considering public listing in the future
Subsidiaries	Owned by larger corporate groups

Each category requires a different approach to valuation and risk assessment.

2.11 Why Do Prices Differ Between Brokers?

Investors are often surprised when different brokers quote different prices for the same company.

Possible reasons include:

- Different sellers.
- Different quantities available.
- Timing of the transaction.
- Negotiation.
- Availability of buyers.
- Transaction costs.

This is one reason why comparing quotations is important before investing.

Common Mistake

Accepting the first quotation without comparison.

Professional investors rarely rely on a single source. Comparing quotations from multiple intermediaries helps improve price discovery and reduces the risk of overpaying.

2.12 Transparency in the Unlisted Market

Compared with listed companies, public information may be more limited.

Investors should therefore rely on multiple sources, including:

- Annual financial statements.
- Regulatory filings where available.
- Company websites.
- Independent research.
- Discussions with knowledgeable intermediaries.
- Publicly available news reports.

Limited information increases the importance of careful due diligence.

Chapter Summary

The unlisted share market in India forms an important part of the broader capital market. It enables ownership transfers in privately held companies through negotiated transactions rather than organised exchanges. Understanding the market structure, participants, transaction process, and sources of liquidity helps investors appreciate both the opportunities and challenges associated with investing in unlisted companies. Unlike listed markets, successful investing in this segment depends heavily on research, valuation, and informed decision-making.

Key Takeaways

- The unlisted market operates through private transactions rather than stock exchanges.
- Multiple participants—including promoters, employees, institutional investors, and retail investors—contribute to market activity.
- Prices are negotiated and may vary across transactions.
- Comparing broker quotations is an important part of the investment process.
- Limited public information makes due diligence especially important.

Self-Assessment Questions

1. What is the difference between the public market and the private market?
2. Why do different brokers quote different prices for the same unlisted share?
3. Who are the major participants in the unlisted share market?
4. Why might an existing shareholder decide to sell shares?
5. Why is due diligence particularly important in the unlisted market?

Practical Exercise

Prepare a simple market map showing:

- Promoters
- Employees
- Venture Capital Investors
- Private Equity Funds
- Brokers
- Retail Investors
- Depositories
- Regulators

Draw arrows indicating how shares move from one participant to another during a typical unlisted share transaction.

Investor Checklist

Before proceeding to Chapter 3, confirm that you understand:

- The structure of India's unlisted share market.
- The role of key market participants.
- Why prices are negotiated rather than exchange-determined.
- The typical transaction flow.
- Why research and due diligence are more important in the unlisted market than in listed markets.

CHAPTER 3

Benefits and Risks of Investing in Unlisted Shares

Understanding the Balance Between Opportunity and Risk

"Every investment offers opportunities, but every opportunity comes with risks. Successful investors understand both before committing their money."

Learning Objectives

After completing this chapter, you should be able to:

- Understand why investors are attracted to unlisted shares.
- Identify the key advantages of investing in unlisted companies.
- Recognize the major risks associated with these investments.
- Understand the relationship between risk and return.
- Develop realistic expectations from unlisted share investments.
- Learn practical ways to reduce investment risk.

Key Terms

Term	Meaning
Liquidity Risk	Risk of not finding a buyer when you want to sell
Business Risk	Risk arising from poor business performance
Valuation Risk	Risk of paying more than the business is worth
Concentration Risk	Investing too much money in one investment
Governance Risk	Risk arising from poor management or corporate practices
Risk-Return Trade-off	Higher potential returns usually involve higher risk

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3.1 Introduction

Stories of investors earning substantial returns from companies before they became publicly listed have generated considerable interest in unlisted shares. However, these success stories often receive far more attention than investments that produced average returns or losses.

Every investment opportunity should be evaluated by asking two questions:

1. **What could go right?**
2. **What could go wrong?**

Successful investors answer both questions before investing.

3.2 Why Investors Consider Unlisted Shares

Investors are drawn to unlisted shares for several reasons:

- Opportunity to invest in promising businesses at an early stage.
- Potential long-term wealth creation.
- Portfolio diversification.
- Access to sectors not widely represented in listed markets.
- Possibility of participating in a future IPO, if one occurs.

However, none of these possibilities should be viewed as guarantees.

3.3 Potential Benefits

Benefit 1 – Early Participation in Business Growth

Investors may participate in a company's growth before it reaches the public markets.

Example

An investor acquires shares in a rapidly expanding technology company while it is privately held. Over several years, the company increases its revenues, profitability, and market presence. If the business continues to perform well, the value of the investment may increase.

The increase in value is linked to business performance—not simply because the company remains unlisted.

Benefit 2 – Long-Term Wealth Creation

Businesses create value over time through:

- Increasing sales.
- Improving profitability.
- Expanding market share.
- Developing new products.
- Improving operational efficiency.

Long-term shareholders may benefit if these improvements are reflected in the company's valuation.

Benefit 3 – Diversification

Many industries have leading private companies that are not represented on stock exchanges.

Adding carefully selected unlisted investments may broaden portfolio exposure.

Benefit 4 – Lower Impact of Daily Market Volatility

Listed shares experience continuous price fluctuations driven by market sentiment.

Unlisted shares do not have continuously quoted market prices.

This does **not** eliminate business risk, but it may encourage investors to focus on long-term business performance rather than short-term price movements.

Benefit 5 – Access to Innovative Businesses

Many innovative businesses remain privately owned for extended periods while developing products, expanding operations, or raising private capital.

Table 3.1 – Summary of Potential Benefits

Benefit	Explanation
Early Investment	Opportunity to invest before wider public participation
Long-Term Growth	Potential appreciation if the business performs well
Diversification	Exposure to businesses outside listed markets
Reduced Daily Price Noise	Less focus on short-term market fluctuations
Access to Emerging Businesses	Opportunity to participate in developing industries

---

3.4 Understanding Investment Risk

Risk does **not** simply mean losing money.

In investing, risk is the possibility that actual outcomes differ from expectations.

Examples include:

- Lower returns than expected.
- Delays in selling.
- Business underperformance.
- Changes in regulations.
- Unexpected economic events.

Understanding risk helps investors make informed decisions rather than avoid investing altogether.

3.5 Major Risks

Liquidity Risk

his is often considered the most significant risk in unlisted shares.

Unlike listed companies, there may not always be an active buyer available.

An investor may need to wait weeks or even months to complete a sale.

Valuation Risk

Without a continuously traded market price, determining fair value requires judgement.

Paying too high a price may reduce future returns even if the company performs well.

Business Risk

Companies may face:

- Declining sales.
- Increased competition.
- Technological disruption.

- Poor management decisions.
- Economic slowdowns.

Business performance ultimately determines shareholder value.

Corporate Governance Risk

Strong governance promotes transparency and accountability.

Weak governance may increase the risk of poor decision-making or conflicts of interest.

Investors should review:

- Board composition.
- Auditor reports.
- Related-party transactions.
- Promoter reputation.

Regulatory Risk

Changes in laws, taxation, or regulatory requirements may affect business operations or investor returns.

Concentration Risk

Investing a large portion of one's savings in a single company increases exposure to company-specific risks.

Diversification helps reduce this risk.

3.6 Risk-Return Relationship

A common misconception is that high-risk investments automatically generate high returns.

In reality:

- Higher risk creates the **possibility** of higher returns.
- It also increases the possibility of larger losses.

Higher risk does **not** guarantee superior performance.

Figure 3.1 – Risk and Expected Return

Lower Risk ——————————► Higher Risk

Savings Account

↓

Government Bonds

↓

Debt Mutual Funds

↓

Large Listed Companies

↓

Mid & Small Cap Companies

↓

Selected Unlisted Companies

↓

Early-stage Start-ups

(Illustrative only; not a ranking of actual investment suitability.)

3.7 Managing Investment Risk

Investors cannot eliminate risk, but they can manage it.

Practical Risk Management Strategies

- Diversify investments.
- Invest gradually rather than all at once.
- Research thoroughly before investing.
- Compare valuations.

- Maintain an emergency fund.
- Avoid borrowing to invest.
- Review investments periodically.

Common Mistakes

❌ Investing solely because an IPO is expected.

❌ Borrowing money to invest.

❌ Following social media recommendations without research.

❌ Ignoring company financial statements.

❌ Investing all available savings in one company.

Expert Insight

The objective of investing is not to avoid all risk. It is to understand risk, price it appropriately, and ensure that it aligns with your financial goals and risk tolerance.

Chapter Summary

Unlisted shares offer opportunities for long-term wealth creation, diversification, and participation in growing businesses. However, they also involve significant risks, including limited liquidity, valuation uncertainty, business performance, governance issues, and regulatory changes. Investors should evaluate both the opportunities and the risks before making investment decisions.

Key Takeaways

- Every investment involves both opportunity and risk.
- Liquidity is one of the defining risks of unlisted shares.
- Business quality is more important than IPO expectations.
- Diversification reduces company-specific risk.
- Risk management is an ongoing process, not a one-time activity.

CHAPTER 4

Who Should Invest in Unlisted Shares?

Assessing Suitability, Financial Readiness and Investment Objectives

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"The best investment is not the one with the highest expected return—it is the one that matches your financial goals, time horizon, and ability to tolerate risk."

Learning Objectives

After completing this chapter, you should be able to:

- Determine whether unlisted shares are suitable for your circumstances.
- Assess your financial readiness before investing.
- Understand the importance of investment objectives and time horizon.
- Recognize the characteristics of disciplined investors.
- Identify situations in which investing in unlisted shares may not be appropriate.

4.1 Introduction

No investment is suitable for everyone.

The right investment for one individual may be inappropriate for another because financial circumstances, income stability, family responsibilities, investment knowledge, and risk tolerance differ.

Before selecting any investment, investors should first evaluate themselves.

4.2 The Five Questions Every Investor Should Ask

Before investing in unlisted shares, answer these questions honestly:

1. **Why am I investing?**
2. **How long can I remain invested?**
3. **Can I tolerate periods without liquidity?**
4. **What percentage of my portfolio will this investment represent?**
5. **Have I researched the business thoroughly?**

If any answer is uncertain, additional preparation may be needed.

4.3 Characteristics of Suitable Investors

Unlisted shares may be appropriate for investors who:

- Have a long-term investment horizon (typically several years).
- Maintain an emergency fund.
- Have diversified investments.

- Understand equity investing.
- Can tolerate uncertainty.
- Invest surplus funds rather than money needed for essential expenses.

Table 4.1 – Investor Readiness Checklist

Question	Yes	No
Emergency fund available?	☐	☐
Adequate insurance coverage?	☐	☐
Existing diversified investments?	☐	☐
Comfortable with long holding periods?	☐	☐
Understand company financials?	☐	☐
Investing surplus funds only?	☐	☐

4.4 When You Should Delay Investing

Consider postponing investment if:

- You have high-interest debt.
- You do not have an emergency fund.
- You expect to need the money in the near future.
- You are investing because of pressure from friends or social media.
- You do not understand the business.

Waiting until your financial position improves is often a prudent decision.

4.5 Investment Objectives

Different investors pursue different objectives.

Objective	Suitable Approach
Wealth creation	Long-term investment in quality businesses
Retirement planning	Diversified portfolio with periodic review
Children's education	Match investments with future funding needs
Short-term expenses	Generally, avoid illiquid investments

4.6 Time Horizon

One of the most important considerations is **time**.

Many successful investments require patience.

Investors should avoid committing money that may be required for:

- House purchase.
- Education expenses.
- Medical emergencies.
- Business working capital.
- Regular household expenses.

4.7 Asset Allocation

Unlisted shares should usually form only one part of a diversified portfolio.

A balanced portfolio may include:

- Equity.
- Debt.
- Gold.
- Real estate.
- Cash and emergency savings.
- Selected unlisted shares.

The exact allocation depends on individual circumstances and should be reviewed periodically.

4.8 Psychological Readiness

Successful investors display several behavioural characteristics:

- Patience.
- Discipline.
- Curiosity.
- Emotional control.
- Willingness to learn.
- Independent thinking.

Emotional investing often leads to poor decisions.

Warning Box

Never invest because someone says, "This company will definitely double after its IPO."

No one can guarantee future market performance. Decisions should be based on careful analysis, not predictions.

Chapter Summary

Investing in unlisted shares is suitable only when it aligns with an investor's financial goals, risk tolerance, and investment horizon. A disciplined investor with adequate emergency savings, diversified investments, and a long-term perspective is generally better positioned to consider such opportunities than someone seeking quick profits or investing under financial pressure.

Key Takeaways

- Investment suitability depends on the investor as much as the investment.
- Emergency savings and financial stability should come before illiquid investments.
- Long-term thinking is essential.
- Asset allocation and diversification reduce overall portfolio risk.
- Emotional discipline is a key ingredient of investment success.

PART II

Investing Process - Buying Unlisted Shares

CHAPTER 5

How to Buy Unlisted Shares in India

A Step-by-Step Guide from Research to Share Transfer

"Buying an unlisted share is not as simple as clicking the 'Buy' button on a trading app. A successful transaction requires careful planning, verification, documentation, and patience."

Learning Objectives

After completing this chapter, you will be able to:

- Understand the complete buying process.
- Know the documents required.
- Select a reliable broker or platform.
- Understand pricing and negotiation.
- Learn the settlement process.
- Avoid common mistakes made during transactions.

Key Terms

Term	Meaning
Buyer	Person purchasing shares
Seller	Existing shareholder transferring shares
Broker	Intermediary connecting buyers and sellers
Off-market Transfer	Transfer of shares outside the stock exchange
Consideration	Amount paid by buyer
ISIN	International Securities Identification Number
Depository Participant (DP)	Institution maintaining Demat Account

5.1 Introduction

Unlike listed shares, unlisted shares cannot usually be purchased through a stock exchange.

Instead, investors purchase them through private transactions involving brokers, investment platforms, wealth managers, or existing shareholders.

Although the process appears more complicated, it becomes straightforward once each step is understood.

Figure 5.1 Complete Buying Process

Identify Company

|

Research Company

|

Select Broker

|

Request Quote

|

Compare Prices

|

Negotiate

|

Verify Documents

|

Payment

|

Share Transfer

|

Demat Credit

|

Verification

5.2 Step 1 – Identify the Company

The first decision is **what to buy**, not **where to buy**.

Many beginners spend too much time finding brokers instead of studying businesses.

Start by preparing a shortlist.

Sources

- Industry reports
- Business newspapers
- Financial magazines
- Company annual reports
- Investment research
- Private equity portfolios
- Venture capital portfolios

Expert Tip

Never buy because a company is "popular."

Buy because the business is strong.

5.3 Step 2 – Research the Company

Study:

✓ Business model

✓ Products

✓ Management

✓ Industry

✓ Financial statements

✓ Competitors

✓ Future prospects

Research Checklist

Item	Completed
Understand business	☐
Revenue growth	☐
Profit growth	☐
Debt level	☐
Cash flow	☐
Promoters	☐
Auditor	☐
Litigation	☐

5.4 Step 3 – Choose a Reliable Broker

The broker is extremely important.

A professional broker should:

- Explain the process clearly.
- Provide documentation.
- Offer transparent pricing.
- Respond promptly.
- Have experience in unlisted shares.

Warning

Never transfer money merely because someone claims:

"The shares will be sold out today."

Pressure selling is a warning sign.

5.5 Step 4 – Obtain Multiple Quotes

Unlike listed shares, prices vary.

Always obtain quotations from multiple brokers.

Example:

Broker	Price
Broker A	₹620
Broker B	₹610
Broker C	₹635

Lower price alone should not determine the decision.

Also compare:

- Settlement
- Reputation
- Documentation
- Experience

5.6 Step 5 – Price Negotiation

Many investors don't realize prices can often be negotiated.

Negotiation depends upon:

- Quantity
- Market demand
- Seller expectations
- Availability

5.7 Step 6 – Documentation

Before making payment verify:

- Company name
- ISIN
- Number of shares
- Agreed price
- Seller details
- Broker details
- Settlement terms

5.8 Step 7 – Payment

Payments should generally be made only through banking channels that create a clear transaction record.

Avoid:

✕ Cash payments

✕ Anonymous accounts

✕ Third-party payment requests without proper verification

5.9 Step 8 – Share Transfer

Once payment is confirmed:

Seller

↓

Depository

↓

Off-market transfer

↓

Buyer's Demat

The investor should verify receipt after completion.

5.10 Step 9 – Verify Demat Credit

After receiving shares:

Check:

✓ ISIN

✓ Quantity

✓ Company Name

✓ Transaction Date

✓ Holding Statement

Common Mistakes

- Buying without research
- Comparing only price
- Paying before documentation
- Investing entire savings
- Ignoring taxation
- Not verifying Demat credit

Chapter Summary

Buying unlisted shares involves far more than locating a seller. Investors should begin with business research, compare quotations from reliable intermediaries, verify documentation carefully, make payments through proper banking channels, and confirm receipt of shares in their Demat account. A disciplined process helps reduce avoidable risks.

Key Takeaways

- Research the company before contacting a broker.
- Compare quotations from multiple sources.
- Verify all documentation before payment.
- Use banking channels for payments.
- Confirm the shares are credited to your Demat account.

Self-Assessment Questions

1. Why should investors compare quotations from multiple brokers?
2. What information should be verified before making payment?
3. Why is research more important than selecting the cheapest broker?
4. What is an off-market transfer?
5. Why should investors verify their Demat account after settlement?

CHAPTER 6

Documentation, Demat Accounts and Settlement Process

Understanding the Legal and Operational Framework of Unlisted Share Transactions

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"Good documentation protects both the buyer and the seller. In investing, paperwork is not a formality—it is part of risk management."

Learning Objectives

After completing this chapter, you should be able to:

- Understand the role of a Demat account.
- Learn how ownership of shares is recorded.
- Understand settlement procedures.
- Identify the documents required.
- Learn how electronic transfers work.
- Maintain proper investment records.

Key Terms

Term	Meaning
Demat Account	Electronic account holding securities
DP	Depository Participant
NSDL	National Securities Depository Limited
CDSL	Central Depository Services (India) Limited
Off-Market Transfer	Share transfer outside a stock exchange
Settlement	Completion of payment and ownership transfer

6.1 Why a Demat Account is Important

Modern securities are generally held electronically.

A Demat account:

- Eliminates physical certificates.
- Reduces paperwork.
- Simplifies transfers.
- Makes ownership records easier to maintain.
- Improves transaction efficiency.

Figure 6.1 Electronic Holding

Company

↓

Depository

↓

Depository Participant

↓

Investor Demat Account

6.2 Documents Required

Personal Documents

- PAN Card
- Aadhaar (where applicable)
- Address Proof
- Bank Account Details
- Demat Account Details

Investment Documents

- Broker Confirmation
- Invoice
- Share Transfer Details
- Payment Proof
- Holding Statement

Table 6.1 Documentation Checklist

Document	Required
PAN	✓
Demat Account	✓
Bank Proof	✓
Invoice	✓
Payment Proof	✓
Holding Statement	✓

6.3 Settlement Process

A typical settlement involves:

Buyer agrees price

↓

Documentation

↓

Payment

↓

Seller initiates transfer

↓

Depository processes transfer

↓

Buyer receives shares

↓

Verification

6.4 Maintaining Investment Records

Every investor should maintain:

- Purchase date
- Number of shares
- Purchase price
- Brokerage
- Taxes and charges
- Supporting documents
- Reason for investment
- Exit strategy

Example Investment Register

Date	Company	Shares	Price	Amount
12 Jan 2026	XYZ Pvt Ltd	100	₹550	₹55,000

6.5 Why Record Keeping Matters

Good records help:

- Calculate capital gains.
- Prepare tax returns.
- Monitor portfolio performance.
- Resolve disputes.
- Track investment decisions.

6.6 Common Documentation Errors

❌ Losing invoices

❌ No payment proof

❌ Wrong Demat details

❌ Incorrect share quantity

❌ Not checking holding statements

Warning Box

Never assume that payment automatically means ownership. Always verify that the shares have actually been credited to your Demat account before considering the transaction complete.

6.7 Best Practices

- Maintain both digital and physical copies of important documents.
- Back up records securely.
- Organize documents by company.
- Review holdings periodically.
- Retain records even after selling shares, as they may be required for taxation or future reference.

Chapter Summary

Documentation and settlement are critical components of investing in unlisted shares. A properly maintained Demat account, complete transaction records, and careful verification of transfers help protect investors and simplify future tax reporting and portfolio management.

Key Takeaways

- A Demat account is essential for holding most unlisted shares in electronic form.
- Proper documentation protects investors.
- Maintain organized records for every transaction.
- Verify all transfers after settlement.
- Good record keeping supports taxation and future decision-making.

Self-Assessment Questions

1. Why is a Demat account important?
2. What documents should every investor retain?
3. Why is record keeping essential?
4. What steps are involved in settlement?
5. What should an investor verify after receiving shares?

PART III

Financial Analysis and Due Diligence

CHAPTER 7

Due Diligence Before Investing

A Systematic Approach to Evaluating Unlisted Companies

"Successful investing begins long before money changes hands. Due diligence is the process of replacing assumptions with evidence."

Learning Objectives

After completing this chapter, you will be able to:

- Understand the concept and importance of due diligence.
- Learn the major areas that should be investigated before investing.
- Evaluate the quality of management, financial performance, governance, and business prospects.
- Use a structured due diligence checklist.
- Identify warning signs that may indicate elevated investment risk.

Key Terms

Term	Meaning
Due Diligence	A systematic investigation conducted before making an investment decision
Corporate Governance	The system through which a company is directed and controlled
Promoter	Founder or controlling shareholder of a company
Related Party Transaction	A transaction between a company and its related persons or entities
Contingent Liability	A possible financial obligation depending on future events
Material Risk	A risk that could significantly affect business performance or investment returns

---

7.1 Introduction

Investing without conducting due diligence is similar to purchasing a house without inspecting it.

The exterior may appear attractive, but hidden structural problems can result in significant financial losses.

Similarly, attractive marketing materials, media coverage, or expectations of a future IPO should never replace careful analysis.

Due diligence is the process of gathering, verifying, and analysing relevant information before making an investment decision.

The objective is **not to eliminate risk**—that is impossible—but to understand it and make informed decisions.

7.2 Why Due Diligence Matters

Every investment decision should answer three questions:

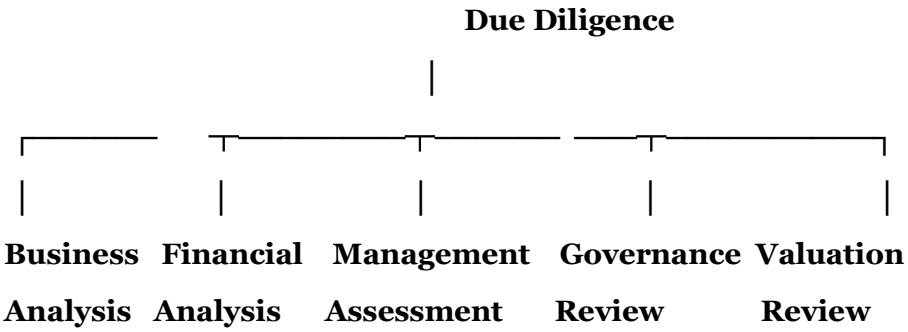
1. **Is this a good business?**
2. **Is this business managed well?**
3. **Am I paying a reasonable price?**

Due diligence helps answer these questions objectively.

Benefits of Due Diligence

- Reduces avoidable mistakes.
- Helps identify hidden risks.
- Improves investment confidence.
- Supports rational decision-making.
- Encourages long-term investing.

Figure 7.1 – The Due Diligence Framework



7.3 Step 1 – Understand the Business

Before analysing financial statements, understand **what the company actually does**.

Questions to Ask

- What products or services does the company offer?
- Who are its customers?
- How does it generate revenue?
- Who are its competitors?
- What differentiates the business?
- Is demand for its products likely to grow?

If you cannot explain the business in two or three simple sentences, you probably do not understand it well enough to invest.

Example - Company A

Manufactures industrial automation equipment for automotive factories.

Customers include major automobile manufacturers.

Revenue comes from equipment sales, maintenance contracts, and software services.

This description provides a clear understanding of the business model.

7.4 Step 2 – Analyse the Industry

A strong company operating in a declining industry may face long-term challenges.

Consider:

- Industry size.
- Growth rate.
- Competition.
- Entry barriers.
- Regulatory environment.
- Technological changes.

Industry Assessment Checklist

Question	Yes	No
Growing industry?	☐	☐
High customer demand?	☐	☐
Strong entry barriers?	☐	☐
Stable regulations?	☐	☐
Long-term growth potential?	☐	☐

7.5 Step 3 – Evaluate the Management Team

Many experienced investors believe that **they invest in people before they invest in businesses**.

Key areas to evaluate include:

- Promoters' experience.
- Integrity and reputation.
- Track record.
- Professional management team.
- Succession planning.

Questions to Consider

- Have the promoters built successful businesses before?
- Do they communicate transparently?
- Have they honoured commitments?
- Is the management stable?
- Are key executives experienced?

Expert Insight

A good business managed poorly can become a poor investment. A competent management team often creates long-term value even during difficult economic conditions.

7.6 Step 4 – Review Corporate Governance

Corporate governance refers to the systems and processes by which a company is managed.

Areas to review include:

- Composition of the Board of Directors.
- Independence of directors (where applicable).
- Auditor reports.
- Internal controls.
- Related-party transactions.
- Legal disputes.
- Regulatory compliance.

Warning Signs

- Frequent auditor changes.
- Delayed financial reporting.
- Large unexplained related-party transactions.
- Ongoing regulatory investigations.
- Lack of transparency.

One warning sign alone may not be conclusive, but multiple warning signs deserve careful investigation.

7.7 Step 5 – Review Financial Performance

Financial statements reveal how the business has performed over time.

Key questions include:

- Is revenue increasing?
- Are profits growing?
- Is cash flow positive?
- Is debt manageable?
- Are profit margins stable?
- Has the company consistently generated returns?

The next chapter explains financial statement analysis in detail.

7.8 Step 6 – Assess Competitive Position

A company's competitive strength influences its ability to generate sustainable profits.

Indicators of Competitive Strength

- Strong brand recognition.
- Proprietary technology.
- Patents or intellectual property.
- High customer loyalty.
- Cost advantages.
- Extensive distribution network.

7.9 Step 7 – Identify Risks

Every investment has risks.

Prepare a written list of company-specific risks.

Examples include:

- Customer concentration.
- Regulatory dependence.
- Technological disruption.

- Commodity price fluctuations.
- Foreign exchange exposure.
- Litigation.

Table 7.1 – Sample Risk Assessment

Risk	Probability	Impact
Customer concentration	Medium	High
New competition	High	Medium
Regulatory changes	Low	High
Rising raw material costs	Medium	Medium

7.10 Step 8 – Determine Valuation

Even an excellent company can become a poor investment if purchased at an unreasonable valuation.

Consider:

- Earnings.
- Cash flow.
- Book value.
- Comparable companies.
- Growth prospects.

Valuation techniques are discussed in Chapter 9.

7.11 Due Diligence Scorecard

Area	Score (1–5)
Business Model	
Industry Outlook	
Management Quality	
Corporate Governance	
Financial Performance	
Competitive Position	
Risk Profile	
Valuation	
Total Score	

Suggested interpretation:

- **34–40:** Strong candidate for further consideration.
- **26–33:** Promising, but requires deeper analysis.
- **Below 26:** Proceed with caution.

This scorecard is only a screening tool and should not replace detailed analysis.

Common Mistakes

❌ Investing without reading financial statements.

❌ Assuming a famous brand is automatically a good investment.

❌ Ignoring governance issues.

❌ Buying solely because an IPO is expected.

❌ Relying on social media or messaging groups.

Chapter Summary

Due diligence is one of the most important responsibilities of an investor. It involves evaluating the business model, industry, management, governance, financial performance, competitive position, risks, and valuation before investing. A structured process helps investors make informed decisions and avoid common mistakes.

Key Takeaways

- Due diligence reduces avoidable investment mistakes.
- Management quality is as important as business quality.
- Strong governance supports long-term value creation.
- Every investment should include a written risk assessment.
- Valuation should always be considered before investing.

CHAPTER 8

Understanding Financial Statements

Learning to Read the Financial Health of a Company

"Financial statements are the language of business. Investors who learn to read them gain a significant advantage in evaluating companies."

Learning Objectives

After completing this chapter, you will be able to:

- Understand the purpose of financial statements.
- Interpret the Balance Sheet, Profit & Loss Statement, and Cash Flow Statement.
- Identify key financial indicators.
- Recognize warning signs in financial statements.
- Understand the relationship between profitability, liquidity, and cash flow.

Key Terms

Term	Meaning
Revenue	Income generated from business operations
Expenses	Costs incurred to generate revenue
Profit	Revenue minus expenses
Assets	Resources owned by the company
Liabilities	Financial obligations of the company
Equity	Owners' interest in the company
Cash Flow	Movement of cash into and out of the business

8.1 Introduction

Many investors believe financial statements are difficult to understand.

In reality, they answer three simple questions:

1. **What does the company own and owe?**
2. **Is the company making money?**
3. **Is the company generating cash?**

These questions are answered through three primary financial statements:

- Balance Sheet
- Statement of Profit & Loss
- Cash Flow Statement

Understanding these documents is essential for evaluating any business.

Figure 8.1 – Relationship Between Financial Statements

Business Operations

|

Revenue & Expenses

|

Profit & Loss Statement

|

Net Profit

|

Balance Sheet (Retained Earnings)

|

Cash Flow Statement

8.2 The Balance Sheet

The Balance Sheet provides a snapshot of the company's financial position on a specific date.

It answers:

- What does the company own?
- What does the company owe?
- How much belongs to shareholders?

Fundamental Equation

Assets = Liabilities + Shareholders' Equity

Example Balance Sheet (₹ lakh)

Assets	Amount	Liabilities & Equity	Amount
Cash	250	Loans	400
Inventory	300	Trade Payables	200
Property & Equipment	950	Shareholders' Equity	900
Total Assets	**1,500**	**Total**	**1,500**

8.3 The Profit & Loss Statement

The Profit & Loss Statement measures business performance over a period.

Example (₹ lakh)

Particular	Amount
Revenue	2,500
Operating Expenses	1,850
Operating Profit	650
Interest & Tax	180
Net Profit	470

A company may report growing revenue but declining profits if expenses increase faster than sales.

8.4 The Cash Flow Statement

Profits do not always equal cash.

A business can report accounting profits while experiencing cash shortages.

The Cash Flow Statement explains:

- Cash generated from operations.
- Cash used for investments.
- Cash received from financing activities.

Three Sections

Section	Purpose
Operating Activities	Cash from core business operations
Investing Activities	Purchase or sale of long-term assets
Financing Activities	Borrowings, repayments, dividends, equity transactions

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Expert Insight

Cash is the lifeblood of a business. A profitable company that consistently fails to generate operating cash flow may face financial stress despite reporting accounting profits.

8.5 Five Indicators Every Investor Should Review

Revenue Growth

Is the company consistently increasing sales?

Profit Growth

Are profits growing at a sustainable rate?

Debt Levels

Can the company comfortably service its borrowings?

Operating Cash Flow

Is the business generating cash from its core operations?

Return on Equity (ROE)

Is management generating satisfactory returns on shareholders' capital?

8.6 Common Warning Signs

- Revenue growth but declining profits.
- Negative operating cash flow over several years.
- Rapidly increasing debt.
- Frequent equity dilution.
- Large unexplained changes in working capital.
- Qualified auditor opinions.

These indicators do not necessarily mean a company is a poor investment, but they warrant further investigation.

Table 8.1 – Healthy vs. Concerning Financial Indicators

Indicator	Healthy Trend	Concerning Trend
Revenue	Consistent growth	Persistent decline
Profit	Stable or improving	Continuous deterioration
Cash Flow	Positive from operations	Repeatedly negative
Debt	Manageable	Rapidly increasing
Equity	Growing	Eroding over time

Chapter Summary

Financial statements provide the foundation for evaluating a company's financial health. The Balance Sheet shows what the company owns and owes, the Profit & Loss Statement measures profitability, and the Cash Flow Statement explains how cash moves through the business. Investors who understand all three statements are better equipped to assess business quality and identify potential warning signs.

Key Takeaways

- Read all three financial statements together.
- Profit alone does not tell the full story—cash flow matters.
- Strong businesses generally demonstrate sustainable revenue, profit, and cash generation over time.
- Financial analysis should be combined with qualitative assessment, including management quality and governance.
- Warning signs deserve investigation rather than immediate conclusions.

PART IV

Becoming a Better Investor

CHAPTER 9

Company Valuation

How to Determine Whether an Unlisted Share Is Worth Buying

"A great company is not always a great investment. The price you pay determines the return you earn." – Warren Buffett

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Learning Objectives

After completing this chapter, you will be able to:

- Understand what valuation means.
- Learn why valuation is more important than popularity.
- Understand the major valuation methods used by investors.
- Estimate whether an unlisted share appears fairly valued.
- Avoid overpaying for investments.
- Compare valuation across companies.

Key Terms

Term	Meaning
Valuation	Estimating the economic worth of a company
Intrinsic Value	Estimated true value of a business based on fundamentals
Market Value	Price agreed between buyers and sellers
Earnings	Profit available to shareholders
Book Value	Net worth of the company
Enterprise Value (EV)	Total value of the business, including debt
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
Discount Rate	Rate used to convert future cash flows into present value

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9.1 Introduction

One of the biggest mistakes investors make is assuming that an excellent company is automatically an excellent investment.

This is not always true.

Imagine two investors buying the same company:

- Investor A purchases shares at ₹500 each.
- Investor B purchases the same shares at ₹1,000 each.

If the company's intrinsic value is ₹600 per share, Investor A may have bought at a reasonable price, while Investor B has overpaid. Even though both own the same business, their future returns could differ significantly because of the price they paid.

This highlights a key investment principle:

Investment returns depend on both business quality and purchase price.

9.2 Price vs. Value

Many new investors confuse **price** with **value**.

Price	Value
What you pay	What the business is actually worth
Determined by buyers and sellers	Estimated using financial analysis
Can fluctuate	Changes with business performance
Visible in transactions	Requires analysis

A negotiated transaction price in the unlisted market does not necessarily represent the intrinsic value of the business.

9.3 Why Valuation Matters

Valuation helps investors answer an important question:

"Am I paying a reasonable price for this business?"

Even an outstanding company can become a poor investment if purchased at an excessively high valuation.

Figure 9.1 – Relationship Between Quality and Price

Business Quality	Purchase Price	Investment Outcome
Excellent	Reasonable	Attractive
Excellent	Very High	Lower Expected Returns
Average	Low	Depends on Improvement
Poor	Cheap	Often Still Poor

9.4 Major Valuation Methods

Professional investors use several valuation methods.

Each method has advantages and limitations.

Method 1 – Price-to-Earnings (P/E) Ratio

The P/E ratio compares the company's share price with its earnings per share.

Formula

P/E Ratio = Share Price ÷ Earnings Per Share (EPS)

Example

Share Price = ₹600

EPS = ₹30

P/E = 600 ÷ 30 = **20**

This means investors are paying ₹20 for every ₹1 of annual earnings.

Interpretation

P/E	Possible Interpretation
Low	May indicate undervaluation or slower growth
Moderate	Often reflects balanced expectations
High	May indicate strong growth expectations or possible overvaluation

---

Method 2 – Price-to-Book (P/B) Ratio

The P/B ratio compares the share price with the company's book value.

Formula

P/B = Share Price ÷ Book Value per Share

This method is often useful for asset-intensive businesses such as banks, insurance companies, and manufacturing companies.

Method 3 – Enterprise Value to EBITDA (EV/EBITDA)

This method compares the value of the entire business with its operating earnings.

It is widely used because it considers both equity and debt.

Simplified Formula

EV = Market Value of Equity + Debt – Cash

EV/EBITDA = Enterprise Value ÷ EBITDA

Example

Enterprise Value = ₹2,500 crore

EBITDA = ₹250 crore

EV/EBITDA = **10**

Investors should compare this ratio with similar companies in the same industry.

Method 4 – Discounted Cash Flow (DCF)

DCF estimates the present value of future cash flows that the business is expected to generate.

It is based on the principle that **money received in the future is worth less than money received today**.

Basic Steps

1. Estimate future cash flows.
2. Select an appropriate discount rate.
3. Discount future cash flows to present value.
4. Estimate terminal value.
5. Sum all present values to estimate enterprise value.

Although powerful, DCF is highly sensitive to assumptions regarding growth rates and discount rates.

Method 5 – Comparable Company Analysis

This method compares the company with similar businesses.

Common comparison factors include:

- Revenue
- Profitability
- Growth
- Industry
- P/E Ratio
- EV/EBITDA
- Return on Equity (ROE)

9.5 Choosing the Appropriate Valuation Method

Company Type	Common Valuation Methods
Profitable Manufacturing Company	P/E, EV/EBITDA
Bank	P/B, ROE
Technology Company	EV/Revenue, DCF
Start-up	Revenue multiples, DCF, Comparable Transactions
Asset-Heavy Business	P/B, EV/EBITDA

Using multiple valuation methods often provides a more balanced assessment.

9.6 Valuation Checklist

Before investing, ask:

☐ Have I calculated or reviewed the P/E ratio?

☐ Have I compared it with similar companies?

☐ Have I reviewed the company's growth rate?

☐ Have I considered debt levels?

☐ Am I relying on more than one valuation method?

☐ Does the current price appear reasonable based on fundamentals?

9.7 Common Valuation Mistakes

- Assuming expensive companies will always become more expensive.
- Ignoring debt while valuing the business.
- Comparing companies from different industries.

- Using outdated financial information.
- Paying excessive prices due to fear of missing out (FOMO).

Expert Insight

Successful investors focus on the relationship between price and value—not on excitement, rumours, or recent popularity.

Chapter Summary

Valuation is the process of estimating what a company is worth. Investors should understand that price and value are not the same. Using valuation methods such as P/E, P/B, EV/EBITDA, DCF, and comparable company analysis helps investors make more informed decisions. No single method is perfect; combining multiple approaches usually provides better insights.

Key Takeaways

- Price is what you pay; value is what you receive.
- Compare companies within the same industry.
- Use multiple valuation methods where possible.
- Avoid overpaying for even the best companies.
- Valuation should be reviewed regularly as business conditions change.

Self-Assessment Questions

1. What is the difference between price and intrinsic value?
2. How is the P/E ratio calculated?
3. Why is EV/EBITDA widely used?
4. What are the strengths and limitations of DCF valuation?
5. Why should multiple valuation methods be considered?

CHAPTER 10

Investment Risks and Risk Management

Identifying, Measuring and Managing Risk in Unlisted Share Investments

---

"Risk cannot be eliminated, but it can be understood, managed, and reduced through disciplined investing."

Learning Objectives

After completing this chapter, you will be able to:

- Identify the different types of investment risks.
- Distinguish between avoidable and unavoidable risks.
- Understand behavioural biases that affect investment decisions.
- Build a practical risk management framework.
- Develop a personal risk assessment process.

Key Terms

Term	Meaning
Market Risk	Risk arising from changes in the overall market
Liquidity Risk	Difficulty in selling an investment at the desired time or price
Credit Risk	Risk that a counterparty may fail to meet obligations
Operational Risk	Risk arising from failures in processes or systems
Behavioural Bias	Psychological tendency that affects decision-making
Margin of Safety	Buying below estimated intrinsic value to reduce risk

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10.1 Introduction

Every investment carries risk. The objective is **not to avoid risk altogether**, but to understand it, evaluate it, and ensure it aligns with your financial goals and risk tolerance.

A disciplined investor manages risk before focusing on returns.

10.2 Categories of Investment Risk

Risk Type	Description	Example
Business Risk	Company underperforms	Declining sales
Liquidity Risk	Difficulty selling shares	Few buyers available
Valuation Risk	Paying more than intrinsic value	Buying at inflated prices
Governance Risk	Weak management or unethical practices	Poor disclosure
Regulatory Risk	Changes in laws or regulations	Tax rule changes
Industry Risk	Challenges affecting an entire sector	Technological disruption
Economic Risk	Macroeconomic factors	Recession, inflation

Figure 10.1 – Layers of Risk

Economic Risk

↓

Industry Risk

↓

Company Risk

↓

Investment Risk

10.3 Behavioural Biases

Many investment mistakes arise from psychology rather than analysis.

Common Biases

Fear of Missing Out (FOMO)
Buying because others appear to be making profits.

Confirmation Bias
Seeking only information that supports an existing opinion.

Overconfidence
Believing one can consistently predict outcomes without sufficient evidence.

Anchoring
Relying too heavily on an initial price or valuation.

Loss Aversion
Holding poor investments simply to avoid recognising a loss.

Recognising these biases can improve investment discipline.

10.4 Building a Risk Management Framework

Professional investors typically follow a structured approach.

Step 1 – Identify Risks

List all material risks associated with the company.

Step 2 – Assess Probability

Estimate the likelihood of each risk.

Step 3 – Assess Impact

Evaluate the potential effect on the business and investment.

Step 4 – Plan Mitigation

Identify actions that could reduce or manage the risk.

Step 5 – Monitor Regularly

Review risks periodically as business conditions evolve.

Table 10.1 – Sample Risk Register

Risk	Probability	Impact	Mitigation
Customer concentration	Medium	High	Monitor customer diversification
Rising debt	Medium	High	Review leverage each year
Regulatory change	Low	High	Track policy developments
Management turnover	Medium	Medium	Review succession planning

10.5 Diversification

Diversification helps reduce company-specific risk by spreading investments across different businesses, industries, and asset classes.

Examples include diversification by:

- Sector
- Company size
- Geography
- Asset class
- Investment stage

Diversification cannot eliminate market-wide risk, but it can reduce the impact of problems affecting a single company.

10.6 Margin of Safety

One way to manage valuation risk is to buy at a price below the estimated intrinsic value.

This concept, known as the **margin of safety**, provides a buffer if assumptions prove overly optimistic.

For example, if intrinsic value is estimated at ₹1,000 per share, an investor may prefer to invest only if the market price offers an adequate margin below that estimate, after considering uncertainty.

10.7 Personal Risk Scorecard

Question	Yes	No
Do I understand the business?	☐	☐
Have I reviewed financial statements?	☐	☐
Is the investment diversified within my portfolio?	☐	☐
Can I remain invested for several years?	☐	☐
Have I considered downside scenarios?	☐	☐

A disciplined "Yes" to these questions indicates stronger preparation before investing.

Common Mistakes

- Investing based on rumours.
- Ignoring downside risks.
- Failing to diversify.
- Allowing emotions to override analysis.
- Chasing recent performance.

Expert Insight

The best investors are not those who never make mistakes. They are those who recognise risks early, manage them thoughtfully, and learn from experience.

Chapter Summary

Risk management is an essential part of investing in unlisted shares. Investors should identify different types of risk, understand behavioural biases, diversify appropriately, apply a margin of safety, and review investments regularly. A structured risk management process supports more consistent and informed decision-making.

Key Takeaways

- Every investment involves risk.
- Behavioural biases can affect investment decisions.
- Diversification reduces company-specific risk.
- A margin of safety helps protect against valuation errors.
- Risk management is an ongoing process, not a one-time exercise.

PART V

Finding and Evaluating Investment Opportunities

CHAPTER 11

How to Find the Best Unlisted Shares

A Practical Framework for Identifying High-Quality Investment Opportunities

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"The best investments are usually found through disciplined research—not through rumours, social media, or last-minute tips."

Learning Objectives

After completing this chapter, you will be able to:

- Develop a systematic approach to identifying promising unlisted companies.
- Build an investment watchlist.
- Use objective screening criteria.
- Evaluate industries and business models.
- Separate investment opportunities from speculation.
- Avoid common mistakes while searching for unlisted shares.

Key Terms

Term	Meaning
Investment Universe	The complete list of companies available for investment
Watchlist	A shortlist of companies selected for further analysis
Screening	Filtering companies based on predefined criteria
Growth Driver	A factor expected to increase future business performance
Competitive Advantage	A sustainable feature that helps a company outperform competitors
Investment Thesis	A written explanation of why an investment is attractive

---

11.1 Introduction

Many investors begin their search with the wrong question:

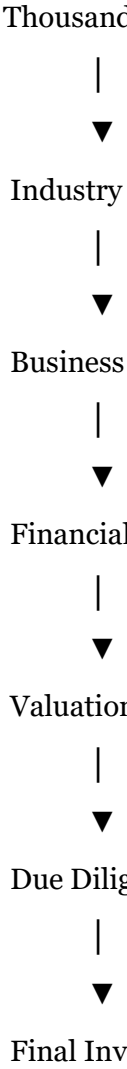
"Which unlisted share should I buy today?"

Professional investors ask a different question:

"Which businesses deserve detailed research?"

Successful investing begins by identifying **high-quality businesses**, not by chasing companies that are popular or expected to launch an IPO.

Figure 11.1 – The Investment Research Funnel



11.2 Step 1 – Identify Promising Industries

Before selecting a company, evaluate its industry.

Questions to ask include:

- Is the industry growing?
- Is demand expected to increase over the next 5–10 years?
- Are there high barriers to entry?
- Is the industry likely to benefit from technological or demographic trends?

- Does government policy support the sector?

Examples of Sectors Often Studied by Investors

- Financial Services
- Insurance
- Asset Management
- FinTech
- Healthcare
- Pharmaceuticals
- Diagnostics
- Renewable Energy
- Defence Manufacturing
- Logistics
- Artificial Intelligence
- Data Centres
- Consumer Brands
- Food Processing
- Specialty Chemicals

A growing industry does not guarantee investment success, but it can provide favourable long-term conditions.

11.3 Step 2 – Prepare a Long List

Develop an initial list of companies without making immediate investment decisions.

Sources for Identifying Companies

- Industry associations
- Business newspapers
- Annual reports of listed companies
- Venture capital portfolios
- Private equity portfolios

- Startup funding announcements
- Company websites
- Government policy documents
- Sector-specific conferences

Aim to create a list of **30–50 companies** for further evaluation.

11.4 Step 3 – Shortlist High-Quality Businesses

Evaluate each company using objective criteria.

Business Quality Checklist

Question	Yes	No
Clear business model?	☐	☐
Growing industry?	☐	☐
Revenue growth?	☐	☐
Profitable operations?	☐	☐
Strong management?	☐	☐
Competitive advantage?	☐	☐
Scalable business?	☐	☐

Companies that meet most of these criteria may warrant deeper analysis.

11.5 Step 4 – Understand the Business Model

An investor should be able to explain:

- What does the company sell?
- Who buys its products or services?
- How does it generate revenue?
- Why do customers choose it over competitors?

- Can the business scale efficiently?

If the business model is difficult to understand, additional research is advisable before investing.

11.6 Step 5 – Identify Growth Drivers

Growth drivers may include:

- Expansion into new markets.
- Product innovation.
- Capacity expansion.
- Technology adoption.
- Increasing customer demand.
- Government incentives.
- Export opportunities.

Growth assumptions should always be supported by evidence rather than optimism.

11.7 Step 6 – Build an Investment Thesis

Before investing, prepare a concise written investment thesis.

Example Template

Company Name: _____

Industry: _____

Reason for Interest:

- Strong industry growth.
- Experienced management.
- Improving profitability.
- Scalable business model.

Key Risks:

- Competition.
- Regulatory changes.
- Customer concentration.

Expected Holding Period: _____

Valuation Opinion: _____

Writing an investment thesis encourages disciplined decision-making and provides a benchmark for future review.

11.8 Developing a Watchlist

Rather than buying immediately, maintain a watchlist.

Suggested information includes:

Company	Industry	Growth	Governance	Valuation	Status
Company A	Financial Services	High	Good	Fair	Watch
Company B	Healthcare	Moderate	Good	Expensive	Wait
Company C	Manufacturing	High	Excellent	Attractive	Research Further

Regularly reviewing the watchlist helps investors remain prepared when suitable opportunities arise.

11.9 Common Mistakes

- Buying based on social media discussions.
- Chasing companies solely because they may launch an IPO.
- Ignoring industry trends.
- Failing to compare alternatives.
- Investing without a written thesis.

Expert Insight

Professional investors spend significantly more time researching companies than executing transactions. Research creates opportunities; transactions simply implement decisions.

Chapter Summary

Finding attractive unlisted shares requires a structured research process. Investors should begin by identifying promising industries, preparing a broad list of companies, evaluating business quality, understanding business models, identifying growth drivers, and documenting an investment thesis. Maintaining a watchlist promotes patience and reduces emotional decision-making.

Key Takeaways

- Start with industries before selecting companies.
- Research should be systematic and evidence-based.
- Build and maintain an investment watchlist.
- Prepare a written investment thesis before investing.
- Patience is an advantage in the unlisted market.

Self-Assessment Questions

1. Why should investors begin with industry analysis?
2. What is an investment thesis?
3. What information should a watchlist contain?
4. Why is a written investment thesis useful?
5. How can investors reduce emotional decision-making?

CHAPTER 12

Sources of Unlisted Shares in India

Where Investors Can Buy Unlisted Shares and How to Evaluate Different Sources

---

"Finding the right company is only half the journey. Buying through a trustworthy source is equally important."

Learning Objectives

After completing this chapter, you will be able to:

- Identify the main sources of unlisted shares in India.
- Understand the advantages and limitations of each source.
- Evaluate brokers and investment platforms.
- Recognize common warning signs.
- Select an appropriate purchase channel.

Key Terms

Term	Meaning
Broker	An intermediary facilitating transaction between buyers and sellers
Investment Platform	A digital marketplace offering access to investment opportunities
ESOP	Employee Stock Ownership Plan
Family Office	A private wealth management entity serving affluent families
PMS	Portfolio Management Service
AIF	Alternative Investment Fund

12.1 Introduction

Unlike listed shares, unlisted shares are not traded through a centralized stock exchange.

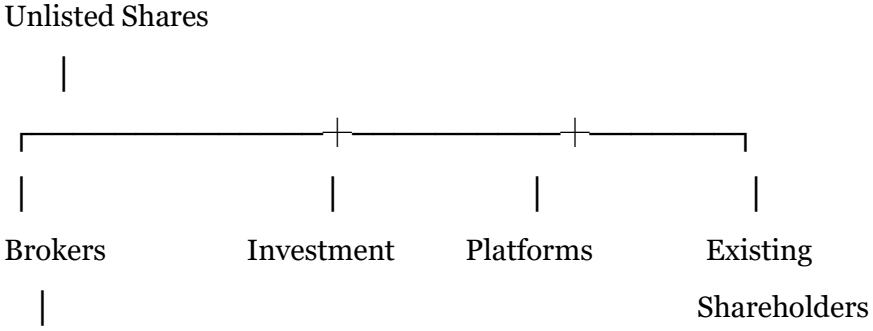
Investors therefore need reliable channels to identify sellers, obtain quotations, and complete transactions.

The choice of intermediary affects:

- Transaction experience.
- Pricing.
- Documentation.

- Settlement efficiency.
- Investor confidence.

Figure 12.1 – Common Sources of Unlisted Shares



12.2 Specialized Brokers

Specialized brokers focus on private market transactions.

Advantages

- Access to available inventory.
- Assistance with documentation.
- Price negotiation support.
- Market knowledge.

Limitations

- Prices may differ between brokers.
- Inventory depends on seller availability.
- Service quality varies.

12.3 Digital Investment Platforms

Several platforms facilitate investments in unlisted shares by providing information, quotations, and transaction support.

Potential advantages include:

- Online access.
- Standardized processes.
- Portfolio tracking.
- Research resources.

Investors should independently verify information and understand fees and settlement procedures.

12.4 Employee Shareholders (ESOP Holders)

Employees receiving shares through ESOPs may become sellers after vesting, subject to company policies and legal restrictions.

This can provide liquidity for employees and investment opportunities for buyers.

12.5 Existing Investors

Potential sellers may include:

- Early angel investors.
- Venture capital funds.
- Private equity funds.
- Promoters (in limited circumstances).
- Family offices.
- Individual shareholders.

Understanding why a shareholder is selling is often as important as the transaction itself.

12.6 Portfolio Management Services (PMS)

Some investors gain exposure to unlisted companies through professionally managed portfolios.

Potential benefits include:

- Professional research.
- Diversification.
- Ongoing monitoring.

Potential limitations include:

- Management fees.
- Minimum investment requirements.
- Limited investor control over security selection.

12.7 Alternative Investment Funds (AIFs)

Certain AIFs invest in private or pre-IPO companies.

Potential advantages:

- Professional management.
- Diversified portfolio.
- Institutional due diligence.

Potential considerations:

- Regulatory framework.
- Lock-in periods.
- Fees.
- Eligibility criteria.

12.8 Evaluating an Intermediary

Before proceeding with a transaction, consider:

Evaluation Criterion	Consideration
Experience	Does the intermediary regularly handle unlisted share transactions?
Transparency	Are pricing, fees, and processes clearly explained?
Documentation	Are all transaction documents provided?
Communication	Are queries addressed promptly and clearly?
Settlement Support	Is assistance provided until shares are credited to the Demat account?

12.9 Warning Signs

Exercise caution if an intermediary:

- Guarantees unusually high returns.
- Claims an IPO is "certain."
- Pressures you to invest immediately.
- Refuses to provide documentation.
- Requests payment to unrelated third-party accounts without a satisfactory explanation.

12.10 Comparing Sources

Source	Suitable For	Main Strength	Key Consideration
Specialized Broker	Retail Investors	Market access	Compare quotations
Investment Platform	Retail Investors	Convenience	Verify information
ESOP Holder	Direct Buyers	Potential supply	Transfer restrictions
PMS	High-net-worth investors	Professional management	Fees and minimum investment
AIF	Eligible investors	Diversification	Lock-in and fund structure

---

Chapter Summary

Investors can access unlisted shares through several channels, including specialized brokers, digital investment platforms, ESOP holders, existing shareholders, PMS, and AIFs. Each source has advantages and limitations. Careful evaluation of the intermediary, transparent documentation, and disciplined due diligence are essential for reducing transaction-related risks.

Key Takeaways

- The source of purchase matters as much as the company being purchased.
- Compare multiple quotations and transaction terms.
- Evaluate intermediaries based on transparency and experience.
- Never rely on guaranteed return claims.
- Maintain complete documentation for every transaction.

CHAPTER 12 - EXTENDED

Section A

Understanding the Unlisted Share Ecosystem

Learning Objectives

After completing this section, readers will be able to:

- Understand how the Indian unlisted share market functions.
- Identify the participants involved in unlisted share transactions.
- Distinguish between listed and unlisted markets.
- Understand how ownership changes hands in private transactions.
- Recognize where retail investors fit within the ecosystem.

12A.1 Introduction

When most people think of buying shares, they imagine opening a trading app, selecting a company, and placing a buy order. Within seconds, the shares are credited to their Demat account.

That is how the **listed equity market** works.

The **unlisted share market**, however, operates differently.

There is no centralized exchange where buyers and sellers meet. Instead, transactions are negotiated privately between parties, usually with the assistance of brokers, investment platforms, wealth managers, or existing shareholders. Prices are determined through negotiation rather than continuous market trading.

Although the process may initially appear more complex, it follows a logical structure. Investors who understand this structure are better equipped to make informed decisions and avoid common mistakes.

This section introduces the complete ecosystem of the Indian unlisted share market and explains how different participants interact with one another.

12A.2 What Is the Unlisted Share Ecosystem?

The unlisted share ecosystem consists of all the entities involved in issuing, holding, transferring, advising on, or investing in shares that are **not traded on a recognised stock exchange**.

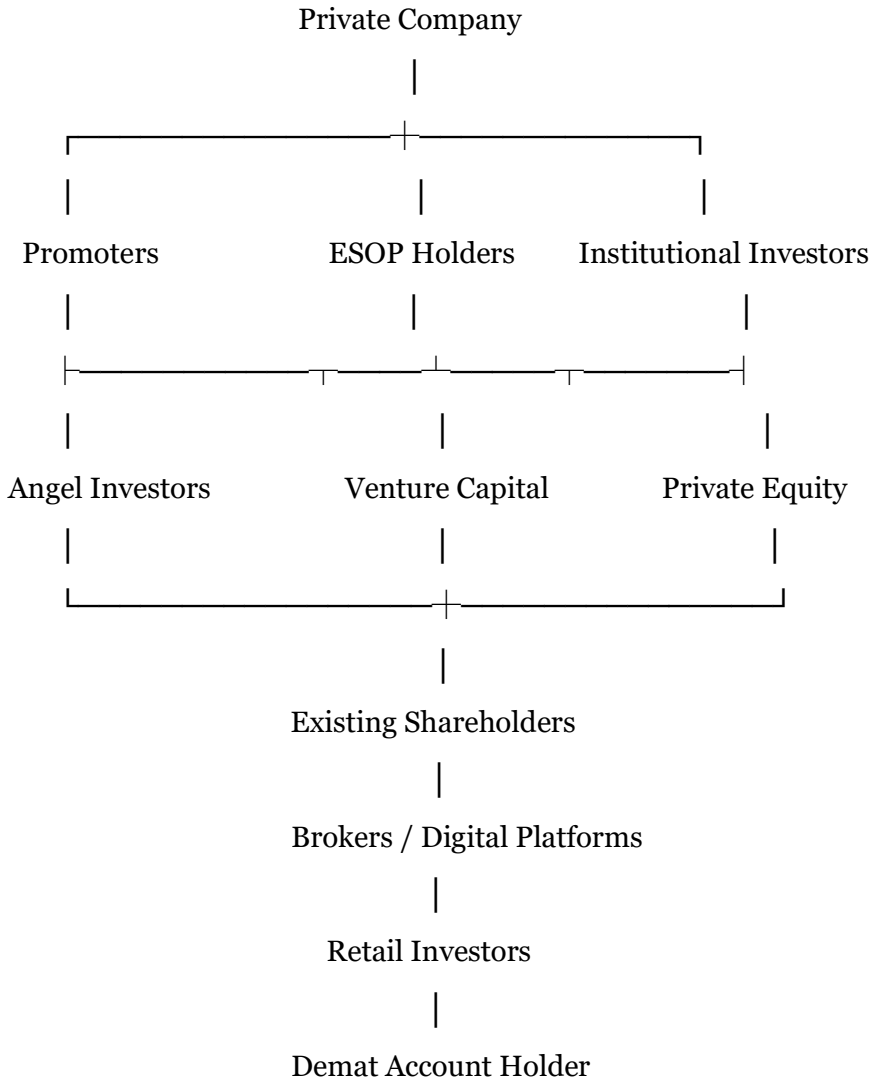
Unlike the listed market, where transactions occur on organized exchanges, the unlisted market is decentralized. Buyers and sellers connect through various channels, and each transaction is completed through documentation, payment, and transfer of ownership.

The ecosystem includes:

- Companies issuing shares.
- Founders and promoters.
- Employees holding ESOPs.
- Angel investors.
- Venture capital funds.
- Private equity funds.
- Family offices.
- Institutional investors.
- Brokers and intermediaries.
- Investment platforms.
- Depositories.
- Retail investors.

Each participant has a different objective, investment horizon, and reason for buying or selling shares.

Figure 12A.1 – The Indian Unlisted Share Ecosystem



12A.3 How the Ecosystem Develops

A company typically moves through several stages before becoming publicly listed—or it may remain privately owned indefinitely.

A simplified lifecycle is shown below.

Stage	Typical Investors
Idea Stage	Founders, Friends & Family
Seed Stage	Angel Investors
Early Growth	Venture Capital Funds
Expansion	Private Equity Funds
Mature Private Company	Institutions, Family Offices, HNIs
Pre-IPO	Existing Investors, Select Retail Investors
Listed Company	Public Shareholders

Not every company follows this exact sequence. Some businesses remain private for many years, while others choose never to list on a stock exchange.

12A.4 How Shares Move from One Investor to Another

Unlike listed shares, where transactions occur automatically through an exchange, unlisted shares generally move through negotiated transfers.

A simplified transaction is as follows:

1. A shareholder decides to sell shares.
2. A broker or platform identifies a potential buyer.
3. Both parties agree on the quantity and price.
4. Required documentation is completed.
5. Payment is made through banking channels.
6. Shares are transferred to the buyer's Demat account (where applicable).
7. The buyer verifies receipt and updates records.

Although the steps are straightforward, investors should ensure that documentation and settlement are completed properly before considering the transaction final.

Figure 12A.2 – Typical Flow of an Unlisted Share Transaction

Existing Shareholder

|

▼

Broker / Investment Platform

|

▼

Buyer Identified

|

▼

Price Negotiation

|

▼

Documentation

|

▼

Payment

|

▼

Share Transfer

|

▼

Demat Credit

12A.5 Major Participants and Their Roles

Participant	Primary Role
Company	Issues shares and manages the business
Promoters	Establish and control the company
Employees	May receive shares through ESOPs
Angel Investors	Provide early-stage capital
Venture Capital Funds	Finance high-growth businesses
Private Equity Funds	Support expansion and scaling
Family Offices	Invest long term on behalf of wealthy families
Brokers	Facilitate transactions between buyers and sellers
Investment Platforms	Provide access, information, and transaction support
Depositories	Maintain electronic ownership records
Retail Investors	Invest personal capital for long-term wealth creation

Each participant contributes to the functioning of the ecosystem, and understanding their motivations helps investors interpret market activity more effectively.

Expert Insight

The unlisted share market is relationship-driven rather than exchange-driven. Information, trust, documentation, and due diligence play a much larger role than they do in routine stock exchange transactions.

Practical Example

Suppose a technology company has been operating privately for eight years.

Its founders still own a majority stake. Employees have received ESOPs, early angel investors hold a smaller stake, and a venture capital fund invested three years ago.

One employee now wishes to sell vested shares. A specialized intermediary connects the employee with an interested buyer. After agreeing on the price, both parties complete the required documentation, payment is made through the banking system, and the shares are transferred electronically.

This illustrates a typical secondary transaction in the unlisted market.

Warning Box

Do not assume that every unlisted company intends to launch an IPO. Many successful businesses remain privately owned for strategic, financial, or operational reasons. An investment decision should be based on business fundamentals rather than expectations of a future listing.

Practical Tips

- Understand who currently owns the shares you plan to purchase.
- Ask why the seller is exiting.
- Learn where the company is in its business lifecycle.
- Prefer businesses with transparent ownership structures and reliable documentation.
- Keep a written record of the transaction process for future reference.

Key Takeaways

- The unlisted share market is decentralized and transaction-driven.
- Multiple participants contribute to the ecosystem, each with different objectives.
- Shares change hands through negotiated transfers rather than stock exchanges.
- Understanding the ecosystem is the first step toward making informed investment decisions.
- A future IPO should be viewed as a possibility, not an assumption.

Section Summary

The Indian unlisted share ecosystem consists of companies, promoters, employees, institutional investors, intermediaries, and retail investors participating in private share transactions. Unlike the listed market, transactions are negotiated and completed through documentation and settlement procedures rather than a centralized exchange. A clear understanding of this ecosystem enables investors to appreciate how opportunities arise, how ownership changes hands, and why careful due diligence is essential.

CHAPTER 12 Extended

Section B

Who Sells Unlisted Shares?

Understanding the Motivations of Different Sellers and What They Mean for Investors

Learning Objectives

After completing this section, you will be able to:

- Identify the various categories of sellers in the unlisted share market.
- Understand why different shareholders decide to sell.
- Distinguish between normal exits and potential warning signs.
- Ask the right questions before purchasing shares.
- Interpret selling activity in the proper business context.

12B.1 Introduction

One of the most common questions asked by first-time investors is:

"If this company has such a bright future, why is someone selling the shares?"

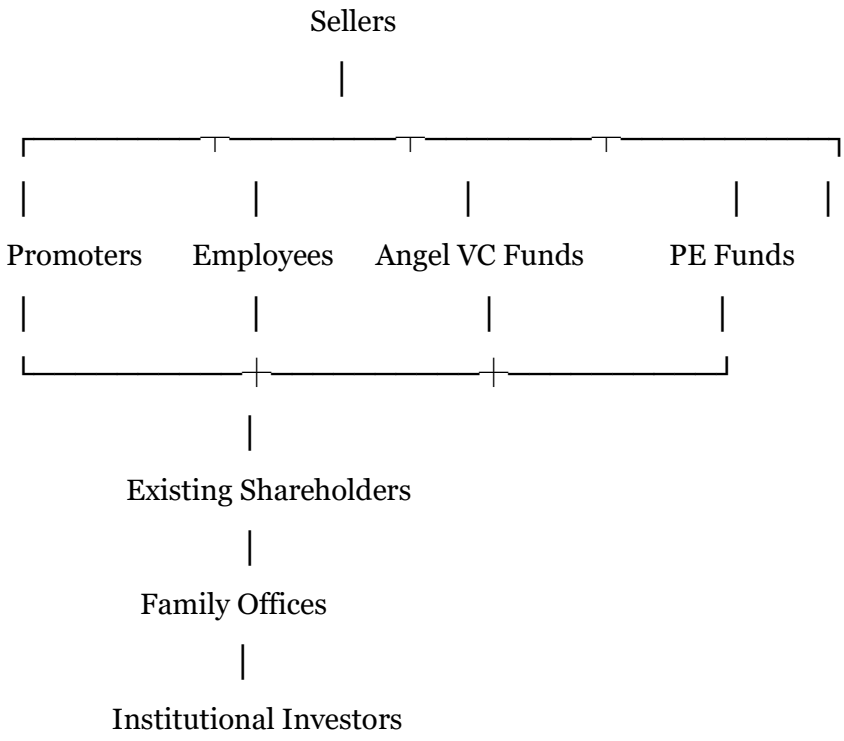
It is a reasonable question—but it often has a simple answer.

People sell investments for many reasons that have nothing to do with the quality of the business. An employee may need money to buy a house, a venture capital fund may have reached the end of its investment period, or a family office may simply be rebalancing its portfolio.

At the same time, selling can occasionally indicate genuine concerns about a company's future.

The objective is **not to assume that every sale is either good or bad**, but to understand the motivation behind it.

Figure 12B.1 – Major Sellers in the Unlisted Market



12B.2 Promoters

Who Are Promoters?

Promoters are the founders or controlling shareholders who establish the company and usually play a significant role in its management and long-term strategy.

They generally hold a substantial ownership stake and influence major business decisions.

Why Might Promoters Sell Shares?

Promoter selling is not automatically a cause for concern.

Possible reasons include:

- Raising funds for a new business venture.
- Personal financial planning.
- Estate or succession planning.
- Meeting tax obligations.

- Diversifying personal wealth.
- Bringing in strategic investors.
- Complying with investor agreements.

When Promoter Selling Is Generally Considered Normal

Examples include:

- A small reduction in shareholding while retaining effective control.
- Sale to a strategic investor who can support future growth.
- Partial monetisation after many years of building the company.
- Fund-raising for business expansion through structured transactions.

Possible Warning Signs

Investors should investigate further if they observe:

- Large reductions in promoter ownership over a short period.
- Multiple promoters selling simultaneously.
- Lack of transparency regarding the purpose of the sale.
- Promoters resigning from management while selling shares.
- Sales occurring immediately before adverse business developments.

These situations do not necessarily indicate problems, but they justify deeper due diligence.

Questions to Ask

- How much ownership will the promoters retain after the sale?
- Will they continue managing the company?
- Has the company explained the purpose of the transaction?
- Does the sale support the company's long-term objectives?

Practical Example

Suppose a promoter owns **65%** of a company and sells **5%** to an institutional investor while retaining **60%** ownership and continuing as Managing Director.

This may simply represent strategic capital raising rather than a loss of confidence.

Expert Insight

Professional investors often focus less on whether promoters are selling and more on how much they are selling, why they are selling, and whether they remain committed to the business.

12B.3 Employees (ESOP Holders)

What Are ESOPs?

Many growing companies reward employees through **Employee Stock Ownership Plans (ESOPs)**.

Instead of only receiving salary and bonuses, employees may receive the opportunity to acquire shares in the company, often subject to vesting conditions.

Why Employees Sell

Employee selling is among the most common and least alarming forms of selling in the unlisted market.

Reasons include:

- Purchasing a house.
- Funding children's education.
- Marriage expenses.
- Medical emergencies.
- Diversifying personal investments.
- Paying taxes arising from ESOP exercise.
- Reducing concentration in a single employer.

Why This Usually Is Not a Red Flag

Employees generally have a large proportion of their personal wealth linked to their employer.

Selling part of their holdings to diversify their finances is considered prudent personal financial management.

Matters to Verify

- Are the shares fully vested?
- Are transfers permitted under company policies?
- Are there any lock-in restrictions?
- Has the company approved the transfer where required?

Practical Example

A senior software engineer receives ESOPs over six years. After purchasing a home, the employee sells part of the vested shares while continuing to work for the company.

This is a common liquidity event and does not necessarily reflect a negative outlook on the business.

Practical Tip

Employee sales should be interpreted in the context of personal financial planning rather than assumed to reflect the company's future prospects.

12B.4 Angel Investors

Who Are Angel Investors?

Angel investors are individuals who provide capital to businesses during their earliest stages.

Their investment is made when the company often has limited revenue and significant uncertainty.

Investment Objective

Angel investors typically seek substantial long-term capital appreciation in exchange for accepting higher risk.

Why Angels Sell

Common reasons include:

- Achieving target investment returns.
- Portfolio diversification.
- Reallocating capital to newer startups.
- Partial exits after institutional funding rounds.
- Personal liquidity needs.

Is Angel Selling a Concern?

Not necessarily.

Angel investors often follow disciplined investment strategies and may exit even when they remain optimistic about the company's future.

Example

An angel investor invested ₹20 lakh ten years ago.

The investment is now valued at ₹4 crore.

Selling a portion of the holding may simply represent prudent portfolio management.

12B.5 Venture Capital Funds

What Is a Venture Capital Fund?

Venture capital (VC) funds invest in innovative businesses with high growth potential.

Unlike individual investors, VC funds manage money on behalf of their investors and operate within predefined fund lifecycles.

Why Venture Capital Funds Sell

VC exits are often driven by the structure of the fund rather than dissatisfaction with the company.

Common reasons include:

- Completion of the fund's investment cycle.
- Distribution of proceeds to investors.
- Achievement of target returns.
- Partial exit before an IPO.
- Sale to a strategic or financial investor.

What Investors Should Understand

A VC fund selling shares does **not** automatically indicate reduced confidence in the business.

Many funds are contractually expected to exit investments within a specified timeframe.

Questions to Consider

- How long has the VC fund invested in the company?
- Is the sale partial or complete?
- Are other institutional investors continuing to invest?
- Has the company recently completed a successful funding round?

12B.6 Private Equity Funds

Role of Private Equity Funds

Private equity (PE) funds generally invest in more mature businesses than venture capital funds.

They often help companies expand operations, improve governance, or prepare for future liquidity events.

Why PE Funds Sell

- Planned exit after business growth.
- Sale to another financial investor.
- IPO preparation.
- Strategic acquisition.
- Fund maturity.

Investor Perspective

PE funds usually enter investments with a predefined exit strategy.

Their sale may simply indicate that they have achieved their investment objectives.

Figure 12B.2 – Typical Institutional Investment Lifecycle

Investment

|

Business Growth

|

Value Creation

|

Partial Exit

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Full Exit

12B.7 Family Offices

What Is a Family Office?

A family office manages investments for one or more wealthy families with a long-term perspective.

These investors often participate in private companies across multiple sectors.

Reasons for Selling

- Portfolio rebalancing.
- Generational wealth planning.
- Capital allocation to new opportunities.
- Liquidity planning.
- Tax considerations.

Should Investors Be Concerned?

Usually not.

Family offices regularly adjust portfolios based on strategic asset allocation rather than short-term market sentiment.

12B.8 Existing Individual Shareholders

Some shareholders simply decide to sell because:

- They require funds.
- They wish to diversify.
- Their investment goals have changed.
- They no longer wish to hold illiquid assets.

Such decisions are common and should be evaluated in context.

Table 12B.1 – Why Different Sellers Sell

Seller Category	Common Reasons	Normally a Red Flag?
Promoters	Strategic sale, diversification, succession	Sometimes—depends on facts
Employees (ESOP)	Personal liquidity, diversification	Usually No
Angel Investors	Portfolio management, profit booking	Usually No
Venture Capital Funds	Fund lifecycle, planned exit	Usually No
Private Equity Funds	Planned exit, IPO, acquisition	Usually No
Family Offices	Asset allocation, liquidity	Usually No
Individual Shareholders	Personal financial needs	Usually No

Warning Box

Never conclude that a company is good or bad simply because someone is selling shares. Always investigate the seller's identity, the size of the sale, the timing, and the stated reason for the transaction.

Investor Due Diligence Checklist

Before purchasing unlisted shares, ask:

☐ Who is selling the shares?

☐ Why are they selling?

☐ Is the sale partial or complete?

☐ Will the seller remain associated with the company?

☐ Are multiple major shareholders exiting simultaneously?

☐ Has the company disclosed any significant developments?

☐ Is there any regulatory or contractual restriction affecting the sale?

Expert Insight

Experienced investors do not fear sellers—they seek to understand them. Every transaction has both a buyer and a seller, and each may have different objectives. The key is to determine whether the seller's motivation reflects personal financial planning or a material change in the company's prospects.

Section Summary

The unlisted share market includes a wide variety of sellers, including promoters, employees, angel investors, venture capital funds, private equity funds, family offices, and existing shareholders. Each category has distinct motivations for selling, many of which are entirely unrelated to the quality of the underlying business. Investors should evaluate the context of each transaction rather than making assumptions based solely on the existence of a seller.

CHAPTER 12 Extended

Section C

Who Buys Unlisted Shares?

Understanding Different Types of Investors and Their Investment Objectives

Learning Objectives

After completing this section, readers will be able to:

- Identify the major categories of buyers in the unlisted share market.
- Understand why different investors buy unlisted shares.
- Learn how investment objectives vary across investor categories.
- Recognize how institutional investors evaluate opportunities.
- Understand where retail investors fit within the ecosystem.

12C.1 Introduction

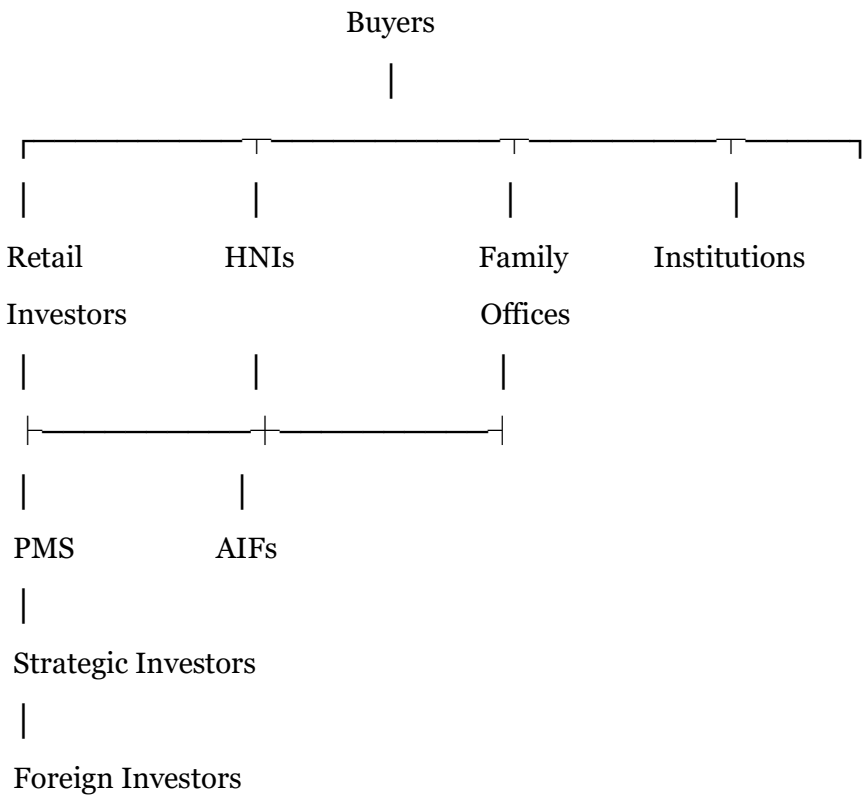
Every transaction has two sides—a seller and a buyer.

In the previous section, we examined why shareholders decide to sell. Equally important is understanding **who is buying** and **why**.

Unlike the listed market, where millions of investors trade daily through stock exchanges, the unlisted market is dominated by investors with long-term horizons. Many buyers are willing to hold investments for five to ten years or longer, often expecting business growth, strategic expansion, or a future liquidity event.

Understanding the motivations of different buyers helps retail investors appreciate how professional capital is allocated and why certain companies attract sustained investor interest.

Figure 12C.1 – Major Buyers in the Unlisted Share Market



12C.2 Retail Investors

Who Are Retail Investors?

Retail investors are individuals investing their own personal savings.

They generally invest for:

- Long-term wealth creation
- Portfolio diversification
- Exposure to high-growth private companies
- Potential appreciation before a future IPO

Retail participation in the unlisted market has increased significantly due to improved access through specialized brokers and digital investment platforms.

Advantages

- Flexibility in investment decisions
- Ability to invest gradually
- Long investment horizon
- Control over portfolio construction

Challenges

- Limited access to company information
- Lower bargaining power
- Limited liquidity
- Greater dependence on independent research

Typical Investment Size

Although there is no fixed rule, retail investments often range from **₹25,000 to several lakh rupees**, depending on the company's share price, minimum transaction size, and the investor's financial capacity.

Practical Tip

Retail investors should avoid concentrating a large proportion of their portfolio in a single unlisted company. Diversification remains important, even when investing in high-quality businesses.

12C.3 High-Net-Worth Individuals (HNIs)

Who Are HNIs?

High-Net-Worth Individuals are investors with substantial investable assets who often participate in opportunities not easily available to smaller investors.

They typically:

- Invest larger amounts.
- Diversify across multiple private companies.
- Work with wealth managers and investment advisors.

- Evaluate both financial and strategic opportunities.

Investment Objectives

HNIs often seek:

- Capital appreciation
- Portfolio diversification
- Access to pre-IPO opportunities
- Tax-efficient wealth planning
- Long-term value creation

Investment Approach

Compared with retail investors, HNIs generally have:

- Larger research resources.
- Better access to management teams.
- Broader professional networks.
- Greater negotiating power.

12C.4 Family Offices

What Is a Family Office?

A family office is an organization established to manage the wealth and investments of one or more affluent families.

Unlike many institutional investors, family offices frequently invest with very long investment horizons.

Investment Philosophy

Family offices often prefer businesses with:

- Strong governance
- Sustainable growth
- Stable management

- Long-term competitive advantages

Many family offices are willing to remain invested for ten years or more if they believe the business continues to create value.

Lessons for Retail Investors

Retail investors may not have similar financial resources, but they can adopt a similar mindset by focusing on business quality rather than short-term price movements.

Expert Insight

Many successful family offices emphasize patience. They often invest in businesses rather than short-term market opportunities. This mindset can also benefit individual investors.

12C.5 Portfolio Management Services (PMS)

Portfolio Management Services manage investments on behalf of clients under regulatory requirements.

Some PMS providers may include exposure to unlisted or pre-IPO opportunities as part of a broader investment strategy, depending on their investment mandate.

Advantages

- Professional portfolio management
- Ongoing monitoring
- Structured investment process
- Diversification

Considerations

- Management fees
- Performance fees (where applicable)
- Minimum investment requirements

- Less direct control over individual investment decisions

12C.6 Alternative Investment Funds (AIFs)

Alternative Investment Funds pool capital from eligible investors and invest according to a defined investment strategy.

Some AIFs focus on:

- Venture capital
- Private equity
- Growth companies
- Pre-IPO investments
- Special situations

Why Investors Choose AIFs

- Professional due diligence
- Diversification
- Institutional investment discipline
- Access to opportunities that individual investors may not find independently

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Important Considerations

Investors should review:

- Investment strategy
- Risk profile
- Lock-in provisions
- Fees
- Fund manager's track record

12C.7 Institutional Investors

Institutional investors include organizations such as insurance companies, pension funds, sovereign funds, banks (where permitted), and other large financial institutions.

They typically invest significant capital and conduct extensive due diligence before making investment decisions.

Characteristics

- Long investment horizon
- Detailed financial analysis
- Strong governance requirements
- Independent legal and commercial reviews

Why Their Participation Matters

Institutional investment may indicate confidence in a company's business model and governance. However, retail investors should still conduct their own analysis and not rely solely on the presence of institutional investors.

12C.8 Strategic Investors

Strategic investors differ from financial investors.

They invest because the company provides strategic value, such as:

- Access to technology
- New products
- Distribution channels
- Manufacturing capabilities
- Geographic expansion

Example

A large manufacturing company may invest in a smaller technology company to gain access to innovative production methods rather than purely for financial returns.

12C.9 Foreign Investors

Certain foreign investors participate in Indian private companies, subject to applicable laws and regulations.

These investors may include:

- Global venture capital funds
- International private equity firms
- Sovereign wealth funds
- Foreign corporate investors

Their participation often reflects confidence in India's long-term economic growth, although each investment should still be evaluated independently.

Figure 12C.2 – Investment Objectives by Buyer Type

Retail Investor	→	Wealth Creation
HNI	→	High Returns + Diversification
Family Office	→	Multi-Generational Wealth
PMS	→	Managed Portfolio Growth
AIF	→	Professional Fund Strategy
Institutional Investor	→	Long-Term Capital Allocation
Strategic Investor	→	Business Synergies
Foreign Investor	→	Global Expansion Opportunities

Table 12C.1 – Comparison of Buyer Categories

Buyer	Typical Horizon	Primary Objective	Investment Style
Retail Investor	3–10 years	Wealth creation	Self-directed
HNI	5–10 years	Capital appreciation	Diversified
Family Office	10+ years	Wealth preservation & growth	Patient capital
PMS	Medium to Long Term	Professional management	Managed portfolio
AIF	Long Term	Fund strategy	Institutional
Institutional Investor	Long Term	Stable returns	Extensive due diligence
Strategic Investor	Long Term	Business value	Strategic investment
Foreign Investor	Long Term	Global diversification	Cross-border investment

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What Retail Investors Can Learn from Professional Investors

Successful institutional investors rarely invest based on rumours or short-term excitement.

Instead, they generally:

- Study industries before selecting companies.
- Meet management teams where possible.
- Review financial statements carefully.
- Assess governance standards.
- Diversify investments.
- Monitor businesses regularly.
- Remain patient during temporary market fluctuations.

Retail investors can adopt many of these principles even with smaller portfolios.

Warning Box

Do not assume that a company is a good investment simply because well-known investors or institutions have invested in it. Their investment objectives, risk tolerance, holding period, and access to information may differ significantly from yours. Conduct your own due diligence before making any investment decision.

Practical Checklist

Before investing, ask yourself:

☐ Do I understand why I am investing?

☐ What is my expected holding period?

☐ Can I tolerate limited liquidity?

☐ Does this investment fit within my overall portfolio?

☐ Have I independently evaluated the company?

☐ Am I investing because of research—or because others are investing?

Key Takeaways

- Different buyers have different investment objectives.
- Professional investors generally follow structured investment processes.
- Retail investors can improve outcomes by adopting disciplined research and long-term thinking.
- Institutional participation is informative but not a substitute for personal due diligence.
- Your investment decisions should align with your own financial goals and risk tolerance.

Section Summary

The Indian unlisted share market attracts a wide range of buyers, including retail investors, high-net-worth individuals, family offices, portfolio management services, alternative investment funds, institutional investors, strategic investors, and foreign investors. Each category has distinct objectives, investment horizons, and evaluation methods. By understanding how these participants approach investments, retail investors can develop more disciplined decision-making processes and better align their strategies with long-term wealth creation.

CHAPTER 12 Extended

Section D

Types of Intermediaries in the Unlisted Share Market

Understanding Brokers, Dealers, Investment Platforms and Other Market Participants

Learning Objectives

After completing this section, you will be able to:

- Understand the role of intermediaries in the unlisted share market.
- Identify different categories of intermediaries.
- Compare their services, strengths and limitations.
- Learn how transactions are facilitated.
- Choose the most suitable intermediary for your investment needs.

12D.1 Introduction

Unlike listed shares, where transactions are executed through recognized stock exchanges, unlisted shares are generally bought and sold through intermediaries.

These intermediaries perform several important functions:

- Connecting buyers and sellers.
- Providing market information.
- Assisting with documentation.
- Coordinating settlement.
- Supporting transfer of ownership.

The quality of the intermediary often determines how smooth, transparent, and secure the transaction will be.

Choosing the right intermediary is therefore an important investment decision.

Figure 12D.1 – Position of Intermediaries in the Ecosystem

Seller

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Intermediary

(Broker / Platform / Wealth Manager)

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Buyer

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Documentation

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▼

Payment

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▼

Share Transfer

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▼

Demat Account

12D.2 Why Intermediaries Are Needed

In the listed market:

Buyer → Stock Exchange → Seller

In the unlisted market:

Buyer → Broker → Seller

Since there is no centralized exchange displaying live buy and sell orders, intermediaries help bridge the information gap.

Their responsibilities often include:

- Identifying available shares.
- Locating potential buyers.
- Assisting with price discovery.
- Coordinating documentation.
- Facilitating settlement.

Some intermediaries also provide research, portfolio support, and investment advisory services.

12D.3 Categories of Intermediaries

The Indian unlisted share market broadly consists of the following categories:

Category	Primary Function
Individual Dealers	Match buyers and sellers
Specialized Unlisted Share Brokers	Facilitate transactions
Digital Investment Platforms	Technology-enabled marketplace
Wealth Managers	Investment advisory and execution
Family Offices	Institutional investment management
Portfolio Management Services (PMS)	Managed portfolios
Alternative Investment Funds (AIFs)	Pooled investment vehicles
Investment Banks	Corporate fund-raising and strategic transactions

Each serves a different purpose and is suitable for different investor profiles.

12D.4 Individual Dealers

Who Are They?

Individual dealers are independent professionals who specialize in buying and selling unlisted shares.

They often operate through personal networks developed over many years.

Services Offered

- Source available shares.
- Find potential buyers.
- Negotiate prices.
- Coordinate documentation.
- Assist with transfers.

Advantages

- Good market knowledge.
- Access to difficult-to-find shares.
- Faster negotiations.
- Flexible transaction sizes.

Limitations

- Research quality varies.
- Documentation standards differ.
- Pricing transparency may be limited.
- Service depends heavily on individual reputation.

Suitable For

Experienced investors who can independently evaluate opportunities.

Practical Tip

Always verify:

✓ Company name

✓ ISIN

✓ Quantity

✓ Price

✓ Documentation

before making payment.

12D.5 Specialized Unlisted Share Brokers

Unlike general stockbrokers, specialized brokers focus primarily on private companies.

Typical Services

- Buy and sell transactions.
- Price quotations.
- Company information.
- Settlement support.
- Portfolio assistance.

Advantages

- Greater specialization.
- Better market intelligence.
- Larger network.
- More structured transaction process.

Limitations

- Prices may differ across brokers.
- Inventory depends on available sellers.
- Research quality varies significantly.

Expert Insight

Always compare quotations from multiple brokers before making a purchase decision. Differences in pricing can materially affect your investment returns.

12D.6 Digital Investment Platforms

Over the past few years, digital platforms have made the unlisted market more accessible to retail investors.

These platforms generally provide:

- Company listings.
- Transaction assistance.
- Market updates.
- Educational resources.
- Portfolio tracking.

Some platforms also assist with documentation and settlement.

Advantages

- Convenient access.
- User-friendly interface.
- Standardized transaction process.
- Improved transparency.
- Educational content.

Limitations

- Platform coverage varies.
- Not every company is available.
- Prices may differ between platforms.
- Investors should independently verify information.

Figure 12D.2 – Digital Platform Workflow

Investor

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Platform Search

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Quotation

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Documentation

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Payment

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Settlement

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Demat Credit

12D.7 Wealth Managers

Wealth managers primarily serve individuals and families with substantial investable assets.

Their services may include:

- Portfolio construction.
- Asset allocation.

- Tax planning.
- Estate planning.
- Access to private market opportunities.

Advantages

- Professional advice.
- Diversified investment approach.
- Personalized recommendations.
- Ongoing portfolio review.

Limitations

- Higher minimum investment.
- Advisory fees.
- May not suit smaller investors.

12D.8 Family Offices

Family offices manage investments for wealthy families.

Although retail investors generally cannot invest through a family office, understanding their investment approach provides valuable insights.

Family offices typically emphasize:

- Long-term ownership.
- High-quality businesses.
- Governance.
- Capital preservation.

12D.9 Portfolio Management Services (PMS)

PMS providers manage portfolios according to an agreed investment mandate.

Some may include exposure to private companies where permitted by their investment strategy.

Suitable For

Investors seeking professional portfolio management rather than selecting individual investments themselves.

12D.10 Alternative Investment Funds (AIFs)

AIFs pool money from eligible investors and invest in accordance with a defined strategy.

Some AIFs focus on:

- Venture capital.
- Growth companies.
- Private equity.
- Pre-IPO opportunities.

Advantages

- Institutional due diligence.
- Diversification.
- Professional management.

Considerations

- Lock-in periods.
- Fund expenses.
- Eligibility requirements.
- Investment strategy.

12D.11 Investment Banks

Investment banks generally do **not** act as retail brokers for buying and selling unlisted shares.

Their role usually includes:

- Fund raising.
- IPO management.
- Mergers and acquisitions.
- Strategic advisory.
- Private placements.

Retail investors should understand this distinction because investment banking services differ significantly from brokerage services.

Table 12D.1 – Comparison of Intermediaries

Intermediary	Best For	Advantages	Limitations
Individual Dealer	Experienced investors	Market access	Variable transparency
Specialized Broker	Most retail investors	Expertise	Compare quotations
Digital Platform	Beginners & retail investors	Convenience	Limited inventory
Wealth Manager	HNIs	Comprehensive advice	Higher cost
Family Office	Large private investors	Long-term focus	Not generally accessible
PMS	Managed investing	Professional oversight	Fees & minimum investment
AIF	Eligible investors	Diversification	Lock-in periods
Investment Bank	Corporate transactions	Strategic expertise	Not a retail purchase channel

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12D.12 Choosing the Right Intermediary

Before selecting an intermediary, evaluate the following:

Experience

- How long has the intermediary been active in this market?

Reputation

- Are there independent reviews or references?

Documentation

- Is every transaction properly documented?

Communication

- Are queries answered clearly and promptly?

Settlement Support

- Will assistance continue until the shares are credited to your Demat account?

Transparency

- Are prices, fees, and processes explained clearly?

Practical Checklist

Before choosing an intermediary:

☐ Compare at least three quotations.

☐ Verify the company's ISIN.

☐ Confirm the share quantity.

☐ Understand all fees and charges.

☐ Review settlement timelines.

☐ Ensure payment instructions are documented.

☐ Maintain copies of all communications.

Warning Box

Avoid intermediaries who promise guaranteed returns, pressure you to invest immediately, refuse to explain documentation, or discourage independent verification. A reputable intermediary welcomes informed investors and transparent processes.

Expert Insight

The best intermediary is not necessarily the one offering the lowest price. Reliability, transparency, documentation, and post-transaction support are often far more valuable than a small difference in purchase price.

Key Takeaways

- Intermediaries play a central role in facilitating unlisted share transactions.
- Different intermediary types serve different investor needs.
- Compare experience, transparency, documentation, and support—not just price.
- Maintain complete records of every transaction.
- Choose long-term relationships over one-time bargains.

Section Summary

The unlisted share market depends on a range of intermediaries, including individual dealers, specialized brokers, digital investment platforms, wealth managers, family offices, PMS providers, AIFs, and investment banks. Each plays a distinct role within the ecosystem and serves different categories of investors. Selecting the right intermediary requires evaluating experience, reputation, transparency, documentation standards, and settlement support. A careful choice can improve both the safety and efficiency of an investment transaction.

CHAPTER 12 Extended

SECTION E1

How to Evaluate an Unlisted Share Platform

A Practical Framework for Selecting the Right Investment Platform

Learning Objectives

After completing this section, you will be able to:

- Understand how unlisted share platforms operate.
- Evaluate different platforms using objective criteria.
- Compare platforms systematically.
- Identify warning signs before investing.
- Select a platform that aligns with your investment objectives.

12E1.1 Introduction

As the market for unlisted shares has grown, numerous brokers, dealers, investment platforms, and advisory firms have entered this space. While this has improved access for investors, it has also increased the need for careful evaluation.

Unlike listed stock exchanges, there is no single marketplace where all unlisted shares are traded. Every platform follows its own business model, pricing policy, documentation process, and customer support system.

Selecting the right platform is therefore just as important as selecting the right company.

12E1.2 What Does an Unlisted Share Platform Do?

An unlisted share platform generally performs one or more of the following functions:

- Connects buyers and sellers.
- Displays available investment opportunities.
- Assists in price discovery.
- Coordinates documentation.
- Facilitates settlement.
- Provides market research.
- Offers investor education.
- Tracks investments after purchase.

Different platforms offer different combinations of these services.

Figure 12E1.1 – Role of an Investment Platform

Buyer

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Platform

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Seller

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Documentation

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Payment

|

Settlement

|

Demat Transfer

12E1.3 Evaluation Framework

Before choosing a platform, evaluate it using the following criteria.

Evaluation Criteria	What Should Be Evaluated
Reputation	Years in business, credibility, market standing
Business Model	Marketplace, broker, advisor or hybrid
Transparency	Pricing, fees and disclosures
Research	Availability of company information
Documentation	Completeness and clarity
Settlement Support	End-to-end assistance
Customer Service	Responsiveness and professionalism
Technology	Website, portal and ease of use
Investor Education	Learning resources
Post-sale Support	Portfolio assistance

12E1.4 Understanding Different Business Models

Business Model	Description
Marketplace	Connects buyers and sellers
Broker	Executes transactions
Advisory	Provides investment advice
Hybrid	Combination of all services

Each model has its own strengths and limitations.

12E1.5 Questions Every Investor Should Ask

Before investing, ask the platform:

- How are prices determined?
- What fees will I pay?
- Who is the seller?
- How is settlement completed?
- What documents will I receive?
- How long will the transfer take?
- Is customer support available after the transaction?
- Will shares be transferred directly to my Demat account?

12E1.6 Warning Signs

Avoid platforms that:

- Guarantee returns.
- Promise assured IPOs.
- Pressure investors to act immediately.
- Refuse to explain documentation.
- Ask for payment without proper documentation.
- Avoid answering question

Warning Box

No genuine investment platform can guarantee profits or confirm that an IPO will definitely occur. Such claims should be treated with extreme caution.

12E1.7 Platform Evaluation Scorecard

Parameter	Weight	Your Score
Reputation	20	
Transparency	20	
Documentation	15	
Research	15	
Customer Support	10	
Settlement	10	
Technology	5	
Education	5	
Total	**100**	

Practical Checklist

Before selecting any platform:

☐ Compare at least three platforms.

☐ Read all documentation carefully.

☐ Understand every charge.

☐ Verify settlement timelines.

☐ Keep copies of all communications.

☐ Do not rely only on advertisements.

Key Takeaways

- No platform is perfect for every investor.
- Compare platforms using objective criteria.
- Documentation and transparency are more important than marketing claims.
- Evaluate service quality, not just price.

Section Summary

Selecting an investment platform requires careful evaluation of its reputation, transparency, documentation standards, customer support, research capabilities, and settlement process. Investors should compare multiple platforms, ask detailed questions, and make decisions based on objective analysis rather than promotional material.

SECTION E2

Profiles of Major Unlisted Share Platforms in India

Understanding the Leading Market Participants

Learning Objectives

After completing this section, you will be able to:

- Understand the different types of unlisted share platforms operating in India.
- Compare their business models and services.
- Identify the type of investor each platform is designed to serve.
- Select an appropriate platform based on your investment requirements.

12E2.1 Introduction

India's unlisted share market has evolved significantly over the past decade. Investors today have access to specialized brokers, digital platforms, investment advisory firms, and wealth management companies that facilitate transactions in private and pre-IPO companies.

Each platform differs in terms of services, investment process, customer support, documentation, research, and investor experience.

The purpose of this section is **not to recommend one platform over another**, but to provide a structured overview that helps investors compare available options objectively. Since business models, product offerings, fees, and regulatory requirements may change over time, investors should always verify the latest information directly from the platform before making an investment decision.

Standard Platform Profile

Each platform is presented using the following format:

- Overview
- Business Model
- Services Offered
- Buying Process
- Selling Process
- Documentation Support
- Settlement Process
- Customer Support
- Strengths

- Limitations
- Suitable For
- Overall Assessment

12E2.2 Major Categories of Platforms

Platform Category	Primary Role
Digital Marketplace	Connect buyers and sellers
Specialized Broker	Facilitate transactions
Investment Advisory Firm	Research and advisory
Wealth Management Firm	Comprehensive investment management
Hybrid Platform	Combination of marketplace, advisory and execution

---

12E2.3 Illustrative Platform Profiles

Platform Type 1 – Digital Marketplace

Overview

A technology-enabled platform designed to simplify access to unlisted shares through an online interface.

Typical Services

- Buying and selling assistance
- Company information
- Documentation support
- Portfolio tracking
- Investor education

Strengths

- Easy to use
- Convenient transaction process
- Educational resources
- Digital documentation

Limitations

- Inventory depends on available sellers
- Research quality varies
- Prices may differ across platforms

Suitable For

- Beginners
- Retail investors
- Long-term investors

Platform Type 2 – Specialized Broker

Overview

A brokerage firm focused primarily on transactions in unlisted and pre-IPO shares.

Typical Services

- Buyer-seller matching
- Negotiation support
- Documentation
- Settlement assistance
- Market insights

Strengths

- Specialized knowledge
- Access to wider inventory
- Negotiation assistance
- Personal support

Limitations

- Limited online automation
- Pricing varies
- Service quality depends on the intermediary

Suitable For

- Experienced investors
- Active investors
- High-value transactions

Platform Type 3 – Wealth Management Firm

Overview

A financial services firm offering portfolio management, investment advisory, and access to private market opportunities for eligible clients.

Typical Services

- Portfolio construction
- Asset allocation
- Investment advice
- Private market access
- Wealth planning

Strengths

- Professional advice
- Diversified investment approach
- Long-term planning

Limitations

- Higher minimum investment
- Advisory fees
- Not suitable for every retail investor

Suitable For

- HNIs
- Family offices
- Long-term wealth creators

12E2.4 Comparative Overview

Feature	Digital Marketplace	Specialized Broker	Wealth Manager
Online Platform	Yes	Limited	Sometimes
Research	Moderate	Moderate to High	High
Documentation	Standardized	Personalized	Comprehensive
Settlement Support	Good	Excellent	Excellent
Advisory Services	Limited	Limited	Extensive
Suitable for Beginners	Yes	Moderate	No
Personalized Service	Moderate	High	Very High

12E2.5 Factors to Compare Before Choosing a Platform

Factor	Why It Matters
Reputation	Builds trust and confidence
Experience	Reflects market knowledge
Transparency	Reduces misunderstandings
Documentation	Protects investor interests
Research Support	Improves investment decisions
Customer Service	Ensures smooth execution
Settlement Process	Reduces operational risk
Educational Resources	Helps new investors learn

Practical Checklist

Before selecting any platform:

☐ Compare multiple platforms.

☐ Understand all charges.

☐ Verify documentation procedures.

☐ Ask about settlement timelines.

☐ Check customer support availability.

☐ Keep written records of every transaction.

Warning Box

Choose a platform because of its professionalism, transparency, and service quality—not because it advertises the "lowest price" or "assured listing gains**."**

Key Takeaways

- Different platforms serve different investor needs.
- No single platform is ideal for every investor.
- Compare services, documentation, transparency, and customer support before investing.
- Always verify the latest platform information, as products and services may evolve over time.

Section Summary

India's unlisted share market is supported by a diverse ecosystem of digital marketplaces, specialized brokers, investment advisory firms, and wealth management companies. Each operates under a different business model and caters to different categories of investors. Rather than selecting a platform based solely on marketing or pricing, investors should evaluate transparency, documentation, research, settlement support, and overall suitability. A disciplined comparison process helps reduce operational risks and contributes to a more informed investment experience.

CHAPTER 12 Extended

Section F

Can You Buy Unlisted Shares Through Large Financial Institutions?

Understanding the Role of Banks, Stockbrokers, Wealth Managers and Investment Banks

Learning Objectives

After completing this section, you will be able to:

- Understand the different types of financial institutions in India.
- Know which institutions generally facilitate investments in unlisted shares.
- Understand the distinction between stockbrokers, wealth managers, investment banks, PMS providers, and AIFs.
- Identify the appropriate channel based on your investment requirements.

12F.1 Introduction

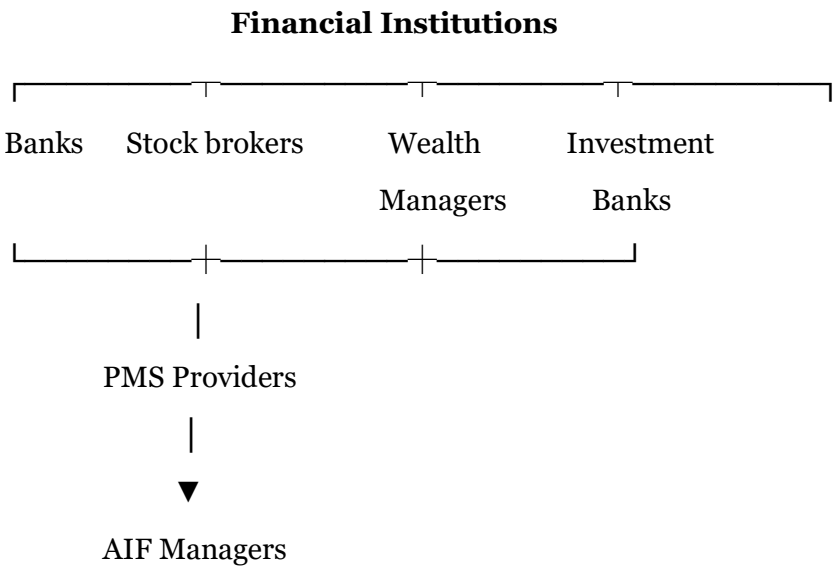
A common misconception among first-time investors is that every well-known stockbroker or bank provides access to unlisted shares.

This is not always the case.

Some institutions focus primarily on listed securities traded on stock exchanges, while others provide wealth management, portfolio management, alternative investment products, or specialized private market opportunities.

Understanding these differences helps investors approach the right institution instead of wasting time contacting organizations that do not offer the desired services.

Figure 12F.1 – Types of Financial Institutions



12F.2 Banks

Commercial banks play an important role in the financial system by offering:

- Savings and current accounts.
- Fixed deposits.
- Loans.
- Foreign exchange services.
- Payment facilities.
- Investment products through associated businesses.

However, banks themselves generally do **not** function as marketplaces for buying and selling unlisted shares.

Some banking groups may offer access to private market opportunities through their wealth management or investment banking divisions, depending on eligibility and internal policies.

Practical Tip

Do not assume that opening an account with a large bank automatically gives access to unlisted shares. The availability of such opportunities, if any, often depends on specialized divisions rather than routine banking services.

12F.3 Stockbroking Companies

Traditional stockbrokers primarily facilitate trading in:

- Listed equity shares.
- Exchange Traded Funds (ETFs).
- Mutual Funds.
- Bonds.
- Derivatives.
- Initial Public Offerings (IPOs).

Some stockbrokers or their affiliated businesses may also provide access to private market opportunities, while others may not.

Investors should verify the current scope of services directly with the institution.

Typical Services

- Demat accounts.
- Trading accounts.
- Market research.
- Equity trading.
- IPO applications.

Key Point

Being a large stockbroker **does not automatically mean** that it actively deals in unlisted shares.

Expert Insight

Investors should distinguish between a stockbroker's listed-market services and any separate private-market offerings that may exist through its wealth management or institutional divisions.

12F.4 Wealth Management Divisions

Many financial groups operate dedicated wealth management businesses for clients with substantial investable assets.

These divisions may offer:

- Asset allocation.
- Tax planning.
- Estate planning.
- Portfolio construction.
- Access to private market investments (subject to eligibility).

Unlike retail broking services, wealth management focuses on comprehensive financial planning.

12F.5 Portfolio Management Services (PMS)

Portfolio Management Services manage investment portfolios on behalf of clients.

Their responsibilities may include:

- Portfolio construction.
- Security selection.
- Risk management.
- Periodic review.
- Performance reporting.

Depending on the investment mandate and applicable regulations, some PMS strategies may include exposure to private or unlisted companies.

12F.6 Alternative Investment Funds (AIFs)

AIFs pool capital from eligible investors and invest according to defined strategies.

Examples of investment themes include:

- Venture capital.
- Growth companies.
- Private equity.
- Infrastructure.
- Special situations.

Certain AIFs may invest in unlisted or pre-IPO companies, subject to their investment objectives.

12F.7 Investment Banks

Investment banks perform functions that differ significantly from retail stockbrokers.

Their work generally includes:

- IPO management.
- Private placements.
- Fund raising.

- Mergers and acquisitions.
- Corporate restructuring.
- Strategic advisory.

Retail investors typically do not purchase unlisted shares directly through investment banking services.

Figure 12F.2 – Role Comparison

Bank -	Savings | Loans | Deposits
Stockbroker -	Listed Shares | ETFs | IPOs
Wealth Manager -	Portfolio Advice | Asset Allocation | Private Opportunities
Investment Bank -	Corporate Fund Raising | IPOs | M&A
PMS (Portfolio Management System) -	Managed Portfolios
AIF (Alternate Investment Fund) -	Pooled Investments

12F.8 Understanding Financial Groups

Many well-known financial institutions operate multiple businesses under one brand.

For example, a financial group may have separate entities for:

- Banking.
- Retail broking.
- Wealth management.

- Investment banking.
- Asset management.
- Insurance.

Each entity performs a different role and may offer different products.

Therefore, investors should identify **which specific business division** they are dealing with.

12F.9 Questions to Ask Before Contacting an Institution

Instead of asking:

"Do you deal in unlisted shares?"

Ask more specific questions:

- Do you facilitate transactions in unlisted equity shares?
- Is this service available to retail investors?
- Is there any minimum investment requirement?
- Is the service offered directly or through another group entity?
- Do you provide research support?
- Do you assist with documentation and settlement?

These questions usually produce clearer and more useful responses.

Table 12F.1 – Understanding Different Financial Institutions

Institution Type	Primary Role	May Offer Access to Unlisted Shares	Suitable For
Commercial Bank	Banking services	Sometimes, through specialized divisions	General banking customers
Stockbroker	Listed market trading	Sometimes	Retail investors
Wealth Manager	Comprehensive advisory	Often for eligible clients	HNIs
PMS	Managed portfolios	Depending on mandate	Investors seeking professional management
AIF	Pooled investments	Yes, depending on fund strategy	Eligible investors
Investment Bank	Corporate advisory	Generally, not a retail purchase channel	Companies and institutions

Availability depends on the institution's current products, regulatory framework, and client eligibility.

Practical Example

Suppose two investors wish to invest in an unlisted technology company.

- **Investor A** approaches a retail stockbroker and discovers that the broker only offers listed equity trading.
- **Investor B** contacts the same financial group's wealth management division and learns that certain private market opportunities may be available to eligible clients.

Although both investors contacted the same financial group, the outcome differed because they approached different business divisions.

This example highlights why understanding institutional structures is important.

Warning Box

Do not assume that every well-known financial institution provides the same investment products. Large organizations often operate several independent businesses with different services, eligibility criteria, and regulatory responsibilities.

Practical Checklist

Before choosing a financial institution, ask:

☐ What products do they actually offer?

☐ Are unlisted shares available directly or indirectly?

☐ Is there a minimum investment amount?

☐ Are research reports available?

☐ Who handles documentation?

☐ Who coordinates settlement?

☐ Is ongoing portfolio support provided?

Key Takeaways

- Banks, stockbrokers, wealth managers, PMS providers, AIFs, and investment banks perform different functions.
- Access to unlisted shares varies by institution, business division, and investor eligibility.
- Always contact the appropriate division within a financial group.
- Verify current services rather than relying on assumptions or outdated information.
- Understand the institution's role before making an investment decision.

Section Summary

Large financial institutions provide a wide range of services, but not all of them facilitate investments in unlisted shares. Investors should distinguish between banks, retail stockbrokers, wealth managers, PMS providers, AIFs, and investment banks, as each serves a different purpose within the financial ecosystem. Understanding these distinctions enables investors to identify the most appropriate channel for their investment objectives and avoid unnecessary confusion.

CHAPTER 12 Extended

SECTION G

How Are Prices of Unlisted Shares Determined?

Understanding Valuation, Price Discovery and Fair Value

Learning Objectives

After reading this section, you will understand:

- Why unlisted shares have no fixed market price.
- How buyers and sellers arrive at a transaction price.
- The major factors affecting valuation.
- How professional investors estimate fair value.
- How to avoid paying an unreasonable price.

12G.1 Introduction

Unlike listed shares, unlisted shares are not traded on a recognized stock exchange. Consequently, there is no continuously quoted market price. Every transaction is privately negotiated between a buyer and a seller.

The quoted price of an unlisted share reflects the outcome of negotiations influenced by the company's business performance, future growth prospects, investor demand, availability of shares, and prevailing market conditions.

Understanding this process helps investors evaluate quotations more intelligently.

12G.2 Price Discovery in the Unlisted Market

The price of an unlisted share is generally influenced by:

- Company's financial performance.
- Growth prospects.
- Industry outlook.
- Corporate governance.
- Demand and supply.
- Availability of sellers.
- Liquidity.
- Probability of an IPO.
- Comparable company valuations.

Unlike listed markets, there is no centralized order matching mechanism.

Figure 12G.1 – Price Discovery

Company Performance

|

Industry Outlook

|

Demand & Supply

|

Negotiation

|

Transaction Price

12G.3 Major Valuation Factors

Factor	Importance
Revenue Growth	Very High
Profitability	Very High
Cash Flow	High
Debt Position	High
Management Quality	High
Corporate Governance	High
Market Opportunity	High

Factor	Importance
IPO Possibility	Moderate
Liquidity	Moderate
Economic Conditions	Moderate

12G.4 Common Valuation Methods

Professional investors frequently use:

Price-to-Earnings (P/E)

Useful for profitable companies.

Price-to-Book (P/B)

Suitable for financial institutions and asset-heavy businesses.

EV/EBITDA

Useful for comparing companies across industries.

Discounted Cash Flow (DCF)

Values a company based on expected future cash flows.

Comparable Company Analysis

Compares valuation multiples with similar companies.

12G.5 Premium vs Discount

Companies may trade at a premium because of:

- Strong earnings.
- Market leadership.
- Expected IPO.
- Scarcity of shares.
- Excellent governance.

Companies may trade at a discount because of:

- Weak business performance.
- Poor liquidity.
- Governance concerns.
- Regulatory uncertainty.

12G.6 Why Prices Differ Between Brokers

Different intermediaries may quote different prices because they:

- Deal with different sellers.
- Negotiate independently.
- Handle different transaction sizes.
- Have varying inventory.
- Charge different margins.

Investors should always compare quotations.

Practical Checklist

Before accepting a quotation:

☐ Compare at least three quotations.

☐ Review financial statements.

☐ Compare valuation with peers.

☐ Understand liquidity risks.

☐ Avoid investing solely because an IPO is expected.

Warning

A low price does not necessarily indicate a bargain, and a high price does not necessarily indicate quality. Investors should focus on intrinsic value rather than quoted price.

Key Takeaways

- Unlisted shares have no official market price.
- Prices are negotiated.
- Business quality determines long-term value.
- Compare quotations before investing.
- Understand valuation rather than following market rumours.

Section Summary

Valuation of unlisted shares is driven by business fundamentals, growth prospects, investor demand, liquidity, and market sentiment. Investors should focus on intrinsic value rather than relying on quoted prices alone and should compare multiple quotations before investing.

CHAPTER 12 Extended

SECTION H

Due Diligence Before Investing

A Complete Checklist for Evaluating an Unlisted Company

Learning Objectives

This section explains:

- What due diligence means.
- How professional investors analyse companies.
- What documents should be reviewed.
- Red flags that should never be ignored.
- A practical due diligence framework for retail investors.

12H.1 What is Due Diligence?

Due diligence is the process of investigating a company before investing.

Its objective is simple:

Reduce uncertainty before committing your money.

Professional investors spend weeks or even months analysing a company before investing.

Retail investors should adopt the same discipline, even if on a smaller scale.

Figure 12H.1 – Due Diligence Framework

Business

Management

Financials

Legal

Industry

Risk Assessment

Investment Decision

12H.2 Business Due Diligence

Understand:

- What products or services the company offers.
- How it earns revenue.
- Customer base.
- Competitive advantages.
- Business scalability.
- Dependence on a few customers.
- Dependence on promoters.

12H.3 Management Due Diligence

Evaluate:

- Promoter background.
- Management experience.
- Corporate governance.
- Reputation.
- Previous business track record.
- Litigation history.

Good management is often more important than a good business idea.

12H.4 Financial Due Diligence

Review:

- Revenue growth.
- Net profit.
- Operating margin.
- Cash flow.
- Debt.

- Return on Equity.
- Return on Capital Employed.
- Auditor's report.

Table 12H.1 – Financial Indicators

Indicator	What It Shows
Revenue Growth	Expansion
Profit Growth	Earnings quality
Cash Flow	Financial health
Debt	Financial risk
ROE	Shareholder returns
ROCE	Capital efficiency

12H.5 Legal Due Diligence

Verify:

- Certificate of Incorporation.
- Shareholding pattern.
- Articles of Association.
- Annual filings.
- Regulatory compliance.
- Material litigation.
- Intellectual property.
- Existing shareholder agreements (where available).

12H.6 Industry Analysis

Ask:

- Is the industry growing?
- Who are the competitors?
- What are the entry barriers?
- Is technology changing the industry?
- What regulations affect the business?

12H.7 Red Flags

Avoid companies with:

- Frequent management changes.
- Poor disclosures.
- Continuous losses without a clear turnaround plan.
- Excessive debt.
- Serious regulatory issues.
- Ongoing fraud investigations.
- Unrealistic growth projections.

Warning Box

Investing without due diligence is speculation. Even a promising company can become a poor investment if fundamental risks are ignored.

Due Diligence Checklist

☐ Business understood.

☐ Management verified.

☐ Financial statements reviewed.

☐ Auditor checked.

☐ Litigation reviewed.

☐ Industry analysed.

☐ Risks identified.

☐ Exit possibilities evaluated.

Key Takeaways

- Due diligence is essential.
- Business quality matters more than rumours.
- Management integrity is critical.
- Financial analysis should precede investment.
- Legal and industry reviews reduce investment risk.

Section Summary

Due diligence is a systematic process of evaluating a company's business, management, financial health, legal position, and industry environment before investing. A disciplined due diligence process helps investors make informed decisions and avoid preventable mistakes.

CHAPTER 12 Extended

SECTION I

Step-by-Step Buying Process

From Selecting a Company to Receiving Shares in Your Demat Account

Learning Objectives

This section explains:

- Every stage of buying an unlisted share.
- Documentation required.
- Payment process.
- Settlement.
- Transfer to Demat account.
- Common mistakes to avoid.

12I.1 Overview

Buying unlisted shares differs significantly from purchasing listed shares.

Instead of placing an order on a stock exchange, investors complete a private transaction involving documentation and settlement.

Figure 12I.1 – Complete Buying Process

Choose Company

|

Select Platform/Broker

|

Receive Quotation

|

Verify Details

|

Accept Offer

|

Complete Documentation

|

Make Payment

|

Settlement

|

Shares Credited

|

Verify Demat Account

12I.2 Step 1 – Identify the Company

Before contacting any broker:

- Study the company.
- Understand its business.
- Complete due diligence.
- Decide your investment amount.

12I.3 Step 2 – Select an Intermediary

Choose a reliable:

- Broker.
- Platform.
- Wealth manager.
- Specialized dealer.

Compare quotations from multiple sources.

12I.4 Step 3 – Obtain a Quotation

Confirm:

- Company name.
- ISIN.
- Number of shares.
- Price per share.
- Total consideration.
- Validity of quotation.

12I.5 Step 4 – Review Documentation

Check:

- Transaction confirmation.
- Payment instructions.
- Share transfer process.
- Settlement timeline.
- Identity of the transferor (where disclosed).

12I.6 Step 5 – Make Payment

Follow the agreed payment instructions carefully.

Always retain:

- Bank advice.
- UTR number.
- Payment receipt.
- Invoice or contract note, if issued.

12I.7 Step 6 – Share Transfer

Once documentation and payment are completed, the seller initiates the transfer of shares to the buyer's Demat account.

Settlement timelines may vary depending on the parties and operational processes.

12I.8 Step 7 – Verify Credit

After receiving confirmation:

- Check your Demat account.
- Verify company name.
- Verify ISIN.
- Verify quantity.
- Save transaction records.

Table 12I.1 – Documents Commonly Required

Document	Purpose
PAN	Identity verification
Aadhaar or other KYC document	KYC compliance
Demat Account Details	Share credit
Bank Details	Payment
Client Information	Transaction processing

Common Mistakes

Many investors:

- Fail to compare prices.
- Ignore documentation.
- Rush into payment.
- Depend only on verbal assurances.
- Do not verify Demat credit.

Golden Rules

✓ Invest only after due diligence.

✓ Read every document.

✓ Keep payment records.

✓ Verify share credit.

✓ Maintain a complete investment file.

Investor Checklist

☐ Company researched.

☐ Broker verified.

☐ Quotation compared.

☐ Documents checked.

☐ Payment completed.

☐ Shares credited.

☐ Records preserved.

Warning Box

Never transfer money solely on the basis of verbal discussions or informal messages. Ensure that the transaction details, payment instructions, and settlement process are properly documented before making payment.

Key Takeaways

- Buying unlisted shares involves multiple steps beyond selecting a company.
- Documentation and verification are as important as the investment decision itself.
- Retaining records and confirming the credit of shares in the Demat account help protect the investor's interests.

Section Summary

Purchasing unlisted shares requires a structured process that begins with company selection and due diligence, followed by choosing a reliable intermediary, obtaining quotations, completing documentation, making payment, and verifying the credit of shares in the Demat account. Careful attention at each stage reduces operational risk and contributes to a smoother investment experience.

CHAPTER 12 Extended

SECTION J

Taxation of Unlisted Shares in India

Understanding Tax Implications Before You Invest

Learning Objectives

After reading this section, you will understand:

- The tax treatment of unlisted shares.
- Difference between Short-Term and Long-Term Capital Gains.
- Cost of acquisition and holding period.
- Tax implications of gifts and inheritance.
- Importance of maintaining records.

12J.1 Introduction

Taxation is an important aspect of investing in unlisted shares. A profitable investment can become less rewarding if investors do not understand their tax obligations.

Tax laws may change from time to time. Therefore, investors should always refer to the latest applicable provisions or seek professional advice for their specific circumstances.

This section explains the general principles rather than providing tax planning advice.

12J.2 Capital Gains

Profits earned on the sale of unlisted shares are generally taxed as **Capital Gains**.

Capital gains arise when:

Sale Price – Cost of Acquisition – Eligible Expenses = Capital Gain

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12J.3 Short-Term vs Long-Term Capital Gains

The tax treatment depends primarily on the holding period prescribed under the Income-tax Act, as amended from time to time.

Particular	Short-Term	Long-Term
Holding Period	As per prevailing tax law	As per prevailing tax law
Tax Treatment	Applicable provisions	Applicable provisions

Important: The holding period and tax rates may change through amendments to tax legislation. Investors should verify the latest provisions before filing their income tax return.

12J.4 Cost of Acquisition

The cost of acquisition generally includes:

- Purchase price.
- Brokerage or transaction charges (where applicable).
- Other eligible acquisition expenses.

Proper documentation should always be maintained.

12J.5 Tax Records

Maintain copies of:

- Purchase confirmation.
- Payment proof.
- Bank statements.
- Share transfer documents.
- Demat statements.
- Sale documents.

12J.6 Gifts and Inheritance

Transfer of unlisted shares through gift or inheritance may have different tax implications from a normal sale.

Investors should maintain proper legal documentation and seek professional advice where necessary.

Practical Checklist

☐ Maintain purchase records.

☐ Preserve payment proofs.

☐ Keep Demat statements.

☐ Maintain sale documents.

☐ Verify applicable tax provisions before filing returns.

Warning Box

Tax laws are amended periodically. Investors should rely on the latest statutory provisions rather than historical tax rules.

Key Takeaways

- Taxation should be considered before investing.
- Maintain complete documentation.
- Understand capital gains provisions.
- Review current tax laws before selling.

Section Summary

Taxation is an integral part of investing in unlisted shares. Investors should maintain proper records, understand the distinction between short-term and long-term capital gains, and remain updated with changes in tax legislation. Good record-keeping simplifies compliance and helps avoid future disputes.

CHAPTER 12 Extended

SECTION K

Risks of Investing in Unlisted Shares

Understanding, Measuring and Managing Investment Risk

Learning Objectives

After completing this section, you will:

- Understand the major risks.
- Learn how professional investors manage risk.
- Identify warning signs.
- Reduce avoidable investment mistakes.

12K.1 Introduction

Every investment carries risk.

Unlisted shares can offer attractive long-term opportunities, but they also involve risks that may be different from those associated with listed securities.

The objective is not to eliminate risk, but to understand and manage it.

12K.2 Major Risks

Liquidity Risk

Finding a buyer may take time.

Business Risk

The company may fail to achieve expected growth.

Financial Risk

High debt and weak cash flows may affect long-term sustainability.

Corporate Governance Risk

Poor governance can destroy shareholder value.

Valuation Risk

Investors may pay more than the company's intrinsic value.

Regulatory Risk

Changes in laws or regulations may affect operations.

Market Risk

Economic conditions may influence investor sentiment.

Table 12K.1 – Risk Assessment

Risk	Impact	Mitigation
Liquidity	High	Long-term investment horizon
Business	High	Thorough due diligence
Financial	High	Analyse financial statements
Governance	High	Evaluate management quality
Valuation	Medium	Compare multiple valuations
Regulatory	Medium	Monitor legal developments

12K.3 Risk Mitigation Strategies

- Diversify investments.
- Invest gradually.
- Avoid borrowing to invest.
- Review investments periodically.
- Focus on quality businesses.

Golden Rules

✓ Never invest emergency funds.

✓ Avoid concentration in one company.

✓ Ignore rumours.

✓ Follow facts.

✓ Think long term.

Warning Box

The possibility of higher returns should never be viewed as compensation for inadequate due diligence or poor risk management.

Key Takeaways

- Every investment involves risk.
- Risk can be reduced through discipline.
- Diversification remains essential.
- Quality businesses generally withstand economic cycles better.

Section Summary

Investing in unlisted shares requires a clear understanding of liquidity, business, financial, governance, valuation, regulatory, and market risks. Investors who follow disciplined due diligence, diversify appropriately, and maintain a long-term perspective are generally better positioned to manage these risks.

CHAPTER 12

SECTION L

Exit Strategies

How and When to Sell Unlisted Shares

Learning Objectives

This section explains:

- Available exit options.
- When investors may consider selling.
- Factors influencing exit decisions.
- Practical guidance for planning an exit.

12L.1 Introduction

A successful investment is not only about buying well—it also depends on exiting appropriately.

Since unlisted shares do not trade on stock exchanges, investors should think about exit opportunities before making an investment.

12L.2 Common Exit Options

Sale to Another Investor

The most common exit method.

Company Buyback

Where permitted and offered by the company.

IPO

If the company becomes listed.

Strategic Acquisition

A larger company acquires the business.

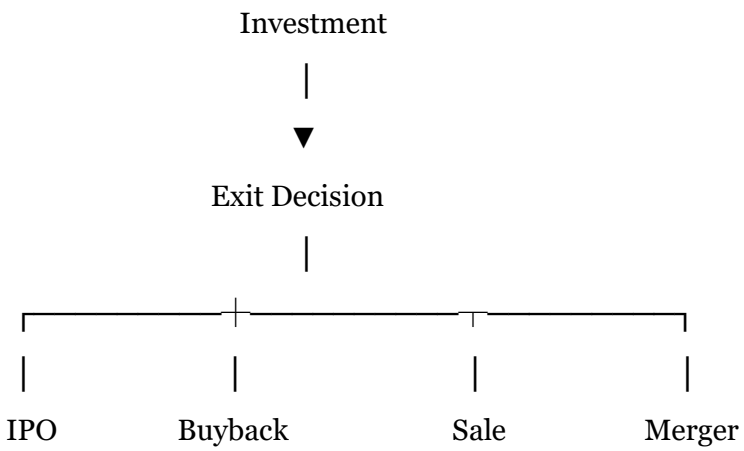
Merger

Shares may be exchanged as part of a merger.

Family Transfer

Gift, inheritance, or succession planning.

Figure 12L.1 – Exit Options



12L.3 When Should You Sell?

Possible reasons include:

- Investment objective achieved.
- Better opportunities available.
- Business fundamentals deteriorate.
- Portfolio rebalancing.
- Personal financial requirements.

12L.4 Common Mistakes

- Selling because of rumours.
- Selling during temporary volatility.
- Ignoring taxation.
- Lack of documentation.
- No exit planning.

Practical Checklist

☐ Review company performance.

☐ Compare valuation.

☐ Understand tax impact.

☐ Maintain documentation.

☐ Plan before selling.

Warning Box

An expected IPO should not be the sole reason for delaying or accelerating an exit. Exit decisions should be based on overall investment objectives, valuation, business fundamentals, liquidity, and personal financial needs.

Key Takeaways

- Every investment should include an exit plan.
- Multiple exit routes may be available.
- Evaluate valuation before selling.
- Maintain proper documentation.

Section Summary

Planning an exit is an essential component of successful investing. Investors should evaluate available exit routes, consider tax implications, assess company fundamentals, and align their decision with their long-term financial objectives rather than short-term market sentiment.

CHAPTER 12 Extended

SECTION M

Final Investor Checklist, Golden Rules and Conclusions

Bringing Everything Together

Learning Objectives

This concluding section helps readers:

- Review the complete investment process.
- Avoid common mistakes.
- Build a disciplined investment framework.
- Develop long-term investment habits.

12M.1 The Complete Investment Journey

Learn

|

Research

|

Due Diligence

|

Valuation

|

Choose Platform

|

Documentation

|

Purchase

|

Monitor

|

Exit

12M.2 The Ten Golden Rules

1. Invest only in businesses you understand.
2. Complete due diligence before investing.
3. Compare quotations from multiple intermediaries.
4. Never invest solely because of IPO expectations.
5. Diversify your investments.
6. Maintain complete records.
7. Invest with a long-term perspective.
8. Review investments periodically.
9. Avoid emotional decisions.
10. Continue learning throughout your investment journey.

12M.3 Investor's Master Checklist

Before Investing

☐ Understand the business.

☐ Review financial statements.

☐ Analyse management quality.

☐ Assess industry prospects.

☐ Compare valuations.

☐ Compare multiple quotations.

☐ Verify documentation.

During Purchase

☐ Confirm ISIN.

☐ Verify quantity.

☐ Verify payment instructions.

☐ Save transaction records.

☐ Monitor settlement.

☐ Verify Demat credit.

After Investing

☐ Track business performance.

☐ Review annual reports.

☐ Monitor industry developments.

☐ Maintain tax records.

☐ Review portfolio allocation periodically.

Before Selling

☐ Reassess company fundamentals.

☐ Compare valuation.

☐ Consider tax implications.

☐ Evaluate alternative opportunities.

☐ Ensure all documentation is complete.

12M.4 Common Mistakes to Avoid

- Investing without understanding the business.
- Relying on tips or rumours.
- Ignoring liquidity risk.
- Overpaying because of market excitement.
- Failing to maintain records.

- Concentrating too much capital in a single investment.
- Neglecting periodic portfolio reviews.

Final Conclusion

Investing in unlisted shares offers the opportunity to participate in the growth of businesses before they become publicly traded. However, these opportunities come with unique challenges, including limited liquidity, reduced public information, and the need for careful due diligence.

Successful investing in this segment requires patience, disciplined research, sound valuation practices, proper documentation, prudent diversification, and a long-term perspective. Investors should focus on business quality rather than market rumours, maintain complete records, and continuously monitor their investments.

Unlisted shares should form part of a well-diversified portfolio rather than represent an investor's entire investment strategy. When approached with knowledge, discipline, and realistic expectations, they can contribute meaningfully to long-term wealth creation.

Investor's Oath

I will invest only after understanding the business. I will verify facts before acting, complete due diligence before committing capital, maintain proper documentation, diversify my portfolio, and make investment decisions based on long-term value rather than short-term speculation. My objective is not merely to earn returns, but to become a disciplined and responsible investor.

Below is a consolidated list of **major Indian platforms, brokers, intermediaries, and specialists** that are active (or have been active) in the unlisted shares / pre-IPO ecosystem. Some are full-service digital platforms, while others are specialist brokers, wealth managers, advisory firms, or liquidity facilitators. Offerings may evolve over time, so this list should be verified by the reader. It's not any recommendation or advice. This is just for the academic purpose. Since I am not a certified financial advisor or any technical expert who is certified in any way. Hence, I hold no accountability or responsibility. All must invest thru a certified financial advisor.

Category A – Specialist Unlisted Share Platforms

1. Precize
2. Planify
3. UnlistedZone
4. Altius Investech
5. Stockify
6. SharesKart
7. UnlistedKart
8. Unlisted Axis
9. UnlistedKraft
10. Compare Unlisted

Category B – Wealth Managers / Private Market Specialists

11. InCred Money
12. JM Financial Services
13. Armour Wealth
14. Wealth Wisdom India (WWIPL)
15. India Capital Growth
16. 3A Financial Services

Category C – Large Financial Institutions

17. Axis Securities
18. ICICI Direct
19. HDFC Securities
20. Kotak Securities
21. Motilal Oswal Financial Services
22. Anand Rathi
23. Nuvama Wealth
24. IIFL Capital

Category D – Specialist Service Providers

25. Share Samadhan *(primarily recovery, transmission, succession and liquidity-related services rather than mainstream unlisted-share broking)*

About the Author

Hi, I am *Mithlesh Kant*, the **MiTH** a mechanical engineer. I've worked in Automobile industry in my career of more than Three Decades. I have ground level; hands on experience in various departments- Manufacturing Operations, Projects, Manufacturing Engineering. I've worked for Escorts group company, Mahindra & Mahindra, Harley Davidson, ABB-Robotics division & some other MNCs & Tier-1 automobile companies.

You can connect with – *MKTHEMITH@GMAIL.COM*

The idea of writing has been with me since childhood. I would create stories and quietly tell them only to myself, never sharing them with anyone. Over the years, I wrote many times, but almost always ended by tearing the pages or deleting the words. Still, I kept coming back to the blank canvas—as if in that emptiness there was comfort, a quiet promise of beginning again, waiting for me to finally stay.

Now, as I look back, I realize that those torn pages and blank screens were not failures but steps in disguise. They were my way of learning that writing is not only about finishing; it is also about returning, about beginning again with patience and faith in my own voice. Today, I carry the same stories inside me, but with a different courage—the courage to let them live beyond the canvas, to give them space in the world just as they had space in me.

I've started writing in 2025 & have self-published three books on Kindle Direct Publishing (KDP).

1. Alphabets - Early Childhood Writing: Learn to write Alphabets. - 2025
2. Early Childhood Learning Level 1: Basics of writing. - 2025
3. **"Ashes to Anthem"** Third book which is a musical love story. The story is about the failures & struggles of the protagonist in his life - Career, Love life & Profession. 2025.Paperback is available on Amazon.com, unfortunately this series is not available in India as print on demand is not available in India. *However, eBook is available in India on Amazon.*

About the Author

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1.Alphabets - Early Childhood Writing; Learn to write Alphabets.
2.Early Childhood Learning Level 1: Basics of writing
Paperback is available on Amazon.com, unfortunately this series is not available in India as print on demand is not available in India.
This is the Third book which is a musical love story. The story is about the failures & struggles of the protagonist in his life - Career, Love life & Profession.
I've written two songs for this story.
The second song is placed first & the first song in last of this book.

Will Madhav get his dues?
Or will he scum to the harsh realities of the life?
Will he rise from Ashes to Anthem???!!!

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ASHES TO ANTHEM

MiTH